U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

May 4, 2000

Dear Democratic Colleague:

On April 13, 2000, the Congress passed the budget resolution conference agreement for Fiscal Year 2001. The House approved the conference agreement on a largely party-line vote of 220-208. Attached is a report that analyzes the conference agreement, compares the conference agreement with the resolution passed by the House in late March, and discusses some of the major differences between the Republican plan and the Democratic alternative I offered.

Just like last year's budget resolution, this resolution puts us on track for another budgetary train wreck in September. Just like last year's budget resolution, this year's resolution calls for deep cuts in domestic programs to make room for large tax cuts. Those spending cuts were rejected by both Republicans and Democrats when the Congress considered the appropriations bills. Last year's tax cuts were so large and risky that the Republicans never bothered to schedule a vote to override the President's veto of their bill. This year's resolution calls for five-year tax cuts that are even larger than last year's.

This year, Republican appropriators have already conceded their budget resolution proposes deep and unrealistic spending cuts. The chairman of the House Appropriations Subcommittee on Labor-HHS, Representative John Edward Porter, stated that Republicans are once again "putting our necks in the noose and handing the President the rope." His Senate counterpart, the chairman of the Senate Labor-HHS Subcommittee, Arlen Specter, stated "it is tough all the way around with the money we have. I think the budget left us insufficient money to take care of the needs." Because of their concerns, both Chairmen Specter and Porter voted against the budget resolution conference agreement.

Like the House-passed budget, this year's conference agreement fails to provide a universal Medicare prescription drug benefit. Instead, the conference agreement states that the Ways and Means Committee *may* report a bill which costs $40 billion with so-called Medicare "reforms" and prescription drugs. This means that virtually all the money could be used for "reforms" and virtually nothing for prescription drugs. Like the House-passed bill, the conference agreement also fails to extend the solvency of the Social Security or Medicare programs for even one day. Like the House-passed bill, the conference agreement comes perilously close to spending the Social Security surplus in the next five years – and it only succeeds if you accept the deep and implausible Republican domestic discretionary spending cuts or bank on higher CBO surplus estimates again bailing us out.

The Republicans propose to cut non-defense discretionary spending in budget authority by $121.5 billion below inflation over the next five years. If their cuts were enacted, the harm to all Americans who depend on domestic programs would be serious. The logical consequences of enforcing the budget resolution's spending levels in the various functions are as follows:

- Eliminating Head Start for more than 40,000 children and their families by 2005.
- Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones and Economic Development Assistance by almost one-third by 2005.
- Cutting more than 600 FBI agents and 500 Drug Enforcement Administration agents by 2005.
- Cutting energy research by 29 percent by 2002 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.
- Providing Pell Grants to 316,000 fewer low-income students by 2005.

Republican conferees did make a few changes to the House-passed bill. They increased defense spending by $3.5 billion in 2001 while maintaining virtually the same deep cuts in non-defense spending. In addition, they reduced the size of their five-year tax cut by $25 billion from at least $200 billion to at least $175 billion. But they keep the flexibility to increase tax cuts above $175 billion if CBO's summer surplus projections are higher.

I hope you find the attached document to be helpful. If you have any questions, please feel free to call me at x55501 or the House Budget Committee's Democratic staff at x67200.

Sincerely,

John Spratt

John M. Spratt, Jr.
Ranking Democratic Member

House Budget Committee
Democratic Caucus
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May 4, 2000

A Summary and Analysis of the Conference Agreement on the Republican Budget Resolution for Fiscal Year 2001

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and therefore may not necessarily reflect the views of all the members of the caucus.

General Notes:

- All years are fiscal years unless otherwise noted.

- Funding levels for discretionary programs are stated in budget authority, unless otherwise noted. Funding levels for entitlements and other direct spending programs represent outlays.

- In general, the 2001 levels for discretionary (appropriated) programs in the conference agreement on the budget resolution are compared with the Congressional Budget Office's (CBO's) March discretionary baseline. The CBO baseline figures are used for comparisons because they represent the 2000 funding levels adjusted for inflation. However, when appropriate, the discretionary funding levels in the House-passed resolution are also compared with CBO's "freeze" level. CBO's freeze level makes no adjustment for inflation. Both the baseline and the freeze level are adjusted to exclude changes to mandatory programs enacted in 2000 appropriations acts.

- Numbers may not add due to rounding.

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Overview

Recent history suggests that the conference agreement on this year's Republican budget resolution is essentially a meaningless political document, not a credible or serious budget plan. Last year, for instance, the Republican budget plan called for large and rapidly growing tax cuts and for very deep cuts in appropriated programs. Neither were enacted; in fact, the Republicans increased funding for appropriated programs. This year looks to be more of the same. This year's Republican budget plan calls for even bigger tax cuts, and for deep cuts in non-defense appropriations. It is therefore unlikely that the President and Congress will enact legislation implementing this year's plan: tax cuts are likely to be more modest in size and scope, and non-defense programs are likely to be increased, not cut. Though not a guide to the future, this year's congressional budget *is* a guide to Republican policy priorities. That is why this report analyzes the policies in this year's congressional budget. In brief, over the five-year period 2001-2005, this year's Republican budget plan —

- cuts taxes by $175 billion, and reserves any improvement in the budget forecast exclusively for even greater tax cuts;

- increases Medicare by $40 billion, some of which may be for prescription drugs;

- makes the prescription drug benefit contingent on unspecified Medicare "reform" and probably limits it to fewer than half of Medicare beneficiaries;

- increases defense outlays by $12 billion beyond that needed to cover inflation;

- increases farm benefit payments by $9 billion relative to existing law; and

- cuts non-defense appropriations by $121 billion in budget authority and $102 billion in outlays relative to the amounts need to stay even with inflation — these budget authority cuts reach an average of 10 percent by 2005.

The tax cuts and the selected program increases far exceed the $171 billion, five-year, non-Social Security surplus the Congressional Budget Office (CBO) projected in March. The tax cuts alone use up 100 percent of the projected surplus. Republicans meet their promise not to "raid" Social Security — their term — by calling for significant cuts in non-defense appropriations. Yet in each of the last four years, Congress has increased those programs faster than inflation. If the program cuts don't occur, the on-budget portion of the federal budget will be thrown back into deficit, unless future reestimates show an even larger starting surplus and the Republicans do not use that windfall for bigger tax cuts. And whether there is an on-budget deficit or surplus, the Republican plan does not extend the solvency of the Social Security or Medicare Trust Funds at all.

Budget Totals

Congressional budgets are simply elaborate tables of figures. The totals, covering 2000 through 2005, are shown in Table 1, below. The Republican budget cuts taxes by $175 billion over the five-year period 2001-2005. That amount is divided between $150 billion set forth in the budget plan and an additional $25 billion "in reserve." The extra $25 billion becomes available if the Ways and Means Committee and the Budget Committee Chairman choose — its use is not contingent on improvements in the economy, for example — so all figures in this analysis assume that the $25 billion "reserve" is used and the tax cut consequently totals $175 billion.[1]

Table 1: Totals in the Congressional Budget for 2001

dollars in billions

	2000	2001	2002	2003	2004	2005	5-yr Total
Outlays	1,783.8	1,834.7	1,889.6	1,947.9	2,011.1	2,086.0	9,769.2
Revenues	1,945.1	2,003.7	2,068.9	2,140.4	2,217.1	2,308.1	10,738.2
Surplus	161.3	169.0	179.3	192.5	206.0	222.1	969.0
On-budget surplus	12.4	7.9	1.5	1.3	1.0	0.4	12.2
Off-budget surplus	148.9	161.1	177.8	191.2	205.0	221.7	956.8
Debt held by public	3,470.2	3,314.2	3,140.3	2,959.4	2,764.4	2,551.9	n.a.

The congressional budget must exclude the Social Security Trust Fund and the Postal Service Fund because these agencies are designated by statute as "off budget." However, the conferees provided figures for both on-budget and off-budget agencies, and this analysis discusses both. (Virtually all of the off-budget surplus is attributable to Social Security, whose payroll taxes and interest earnings currently exceed the cost of benefits and administration.)

Debt Reduction and the On-Budget Surplus

In March, CBO projected that current budget policies would produce an on-budget surplus (a surplus excluding Social Security) of $171 billion over the five-year period 2001-2005. Of that $171 billion surplus, the conference agreement devotes $12 billion, or 8 percent, to debt reduction. (The House Democratic alternative budget resolution, in contrast, devoted four times as much of the on-budget surplus to debt reduction.) Table 2 shows how the Republican budget disposes of the projected $171 billion on-budget surplus.

[1] The year-by-year path of the $25 billion tax cut "reserve" — $1.0 billion, $4.0 billion, $5.4 billion, $5.6 billion, and $9.0 billion in 2001 through 2005, respectively, was supplied by Republican staff. All figures in this analysis also reflect the cost of debt service on the extra $25 billion in tax cuts. In addition, as discussed on page 6, the tax cuts can grow beyond $175 billion to the extent CBO projects an even greater baseline surplus in its August update.

Table 2: How the Conference Agreement Disposes of the On-budget Surplus

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	2001	2002	2003	2004	2005	Five years
CBO Surplus without Social Security	15	29	36	42	48	171
Tax cuts	13	27	36	45	53	175
Medicare reform & drugs	2	5	8	11	14	40
Non-defense cuts	-12	-13	-19	-26	-32	-102
Defense increases	2	3	2	3	2	12
Farm payments	2	1	2	2	2	9
Other mandatory policies	a	2	1	a	a	4
Interest costs of policies	1	2	4	6	8	21
Planned Surplus without Social Security	8	2	1	1	a	12

May not add due to rounding.
a = less than $½ billion

Table 2 shows that the $175 billion tax cut *by itself* uses up all of the projected on-budget surplus. In addition, the conference agreement includes $65 billion in selected spending increases, primarily for Medicare, defense, and farm benefits. These tax and spending policies taken in isolation would produce on-budget deficits in every year; Table 3 shows these deficits would total $101 billion over five years.

Some claim that on-budget deficits harm, or even "raid," the Social Security trust fund. In any case, because on-budget deficits will not reduce debt as fast as surpluses would, deficits put the government in a worse position to meet the budgetary pressures that will occur when the baby boom generation starts to retire at the end of the decade. (For a more complete discussion of this issue, see *Debt Reduction* and *Medicare and Social Security Solvency*.) Both the Democratic and Republican parties aim to produce on-budget surpluses. The Republican budget plan achieves those on-budget surpluses by hefty cuts in non-defense appropriations — $102 billion in outlays over five years.

Table 3: The Conference Agreement WITHOUT Cuts in Non-defense Appropriations

Figures exclude Social Security; revenue or outlay changes in billions of dollars

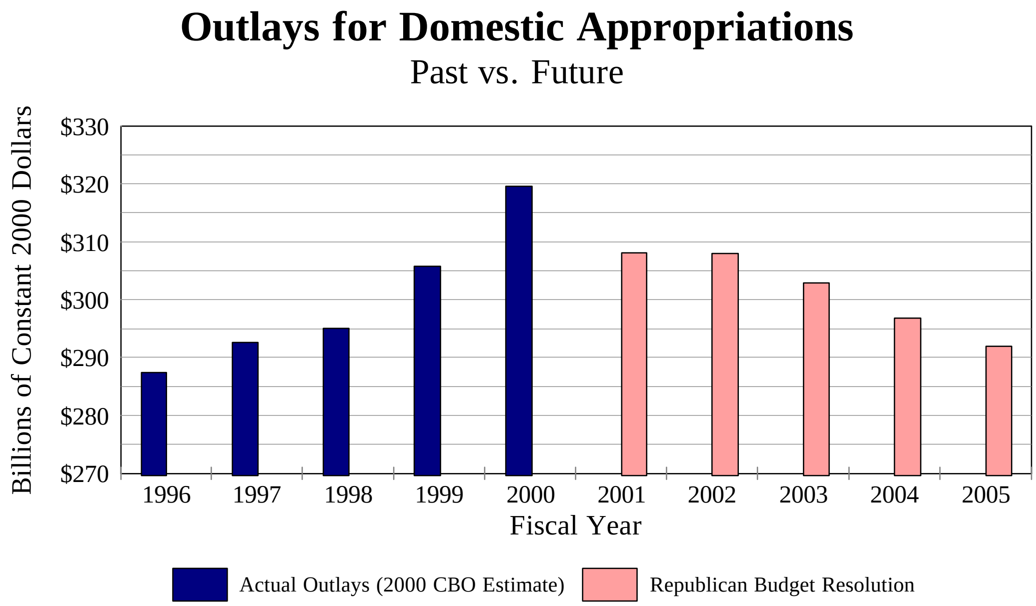
	2001	2002	2003	2004	2005	Five years
CBO Surplus without Social Security	15	29	36	42	48	171
Tax cuts	13	27	36	45	53	175
Medicare reform & drugs	2	5	8	11	14	40
Non-defense cuts	*a*	*a*	*a*	*a*	*a*	*a*
Defense increases	2	3	2	3	2	12
Farm payments	2	1	2	2	2	9
Other mandatory policies	b	2	1	b	b	4
Interest costs of policies	1	3	6	9	13	32
Resulting Deficit (-) w/o Social Security	-5	-12	-19	-28	-37	-101

May not add due to rounding.
a = omitted to illustrate what happens if non-defense appropriations are not cut.
b = less than $½ billion

Will the Non-Defense Cuts Occur?

The surpluses in the conference agreement exist only because the Republicans say they will make large non-defense cuts. Will these cuts really occur? As discussed in *Appropriations* and in the analyses of individual functions, the cuts are harmful to a variety of widely supported programs ranging from WIC, Head Start, and Pell Grants to Community Development Block Grants (CDBGs), Superfund, and the FBI.

The cuts in appropriated programs reach 10 percent on average by 2005. As noted, this analysis measures cuts relative to CBO's baseline, which assumes constant purchasing power. It is instructive that, over the past four years, Congress has increased rather than cut the purchasing power of non-defense appropriations. The following graph illustrates the sudden change in policy the Republican conference agreement calls for. Of course, it is doubtful such a sudden and complete reversal of form will, or should, take place.



Tax Cuts

The conference agreement cuts taxes at least $175 billion over five years, but it does not spell out the specific tax cuts the Republicans have in mind.

- ***Two Bills* —** There will be two tax cut bills moving in the House and Senate pursuant to a "reconciliation" directive. There is speculation that the first bill will be designed to elicit a veto and the second, a signature. The Senate is not allowed to filibuster reconciliation bills or to attach non-germane amendments.

- ***How Big?* —** The $175 billion five-year tax cut grows rapidly, reaching $53 billion by 2005. Note that the $175 billion five-year tax cut in this year's budget is 12 percent larger than the $156 billion tax cut Congress passed (but the President vetoed) last year.

- ***Long-term Costs* —** The conference report attempts to cloak the long-term costs of the tax cuts. While last year's congressional budget covered ten years and showed both the five-year and ten-year costs of the tax cut, this year's covers only five. It may be instructive to examine last year's Republican tax cut — that tax cut started at $156 billion over five years but grew to $792 billion over ten. And even that figure understated the true cost of last-year's tax cut, because most of its provisions expired in the ninth year.

Had they not done so, the ten-year cost of last-year's tax bill may well have been $869 billion, and the cost in the tenth year alone would have reached $202 billion. Since the five-year cost of this year's plan is 12 percent larger than the five-year cost of last year's plan, one can only speculate how large the ten-year cost of this year's tax cut will grow.

- ***CBO Reestimates* —** The tax cut can grow beyond $175 billion to the extent CBO's next budget forecast shows higher on-budget surpluses.[2] This feature of the conference agreement is available *only* for tax cuts. (See text box.) It adds to the uncertainty over the potential long-term size of the tax cut.

Tax Cuts: The Alpha and Omega

Traditionally, budget plans are based on CBO's March budget projections and do not change even if CBO alters its forecast — if CBO's August update showed an improved outlook, all the improvement automatically accrued to deficit reduction or, more recently, debt reduction.

This year, in contrast, the conference agreement permits the Budget Committee Chairmen to devote all the improvement to deeper tax cuts. If they do so, none of the improvement would be dedicated to further debt reduction. And in any case, none of the improvement can be dedicated to relieving the squeeze on domestic appropriations, to more rapidly modernizing the military, to designing a less restrictive Medicare drug benefit, and so on. In short, the Republicans are saying that their conference agreement constitutes the optimal amount of funding for education, prescription drugs, highways and mass transit, health research, low-income programs, veterans programs, farm programs and other programs *regardless* of the size of the surplus. In addition, the Republicans are saying that their tax cut of $175 billion over five years is smaller than they really want, and that a greater tax cut is therefore the primary, or perhaps only, legitimate use of a bigger surplus.

Will CBO Increase its Baseline Surplus Estimate?

Through the first six months of this year, economic growth and revenue growth have outpaced expectations, but so has the growth of outlays in federal programs, especially Medicare and Medicaid. While it is not certain that CBO will increase its estimate of the 2000 surplus or of surpluses after 2000, the conventional wisdom is that CBO will re-estimate its baseline surplus for 2000 and for future years upward in August, perhaps by substantial amounts. As explained in the previous section, the full upward re-estimate in 2001-2005 can be devoted to increasing the size of the tax cut beyond $175 billion, if the Budget Committee Chairmen choose. And if only a portion of the good news is devoted to extra tax cuts, the rest automatically is used for debt reduction.

[2] The conference agreement fails to specify which of CBO's three baselines should be used to determine whether the surplus has increased. It is likely each will increase by a different amount.

Yet the previous discussion of the conference agreement's appropriation levels strongly suggested that the proposed non-defense cuts will not be made. This leaves open a possibility not contemplated by the budget resolution — a combination of upward reestimates and smaller-than-anticipated tax cuts will provide room to increase, rather than cut, non-defense appropriations and other programs beyond the levels set in the conference agreement, all without producing an on-budget deficit.

In short, history tells us that not only are the policies in the conference agreement unlikely to be enacted, but also that the surplus estimates in this analysis — whether in Table 2 or Table 3 — are likely to prove pessimistic.

Prescription Drugs and Medicare "Reform"

The conference agreement provides $40 billion, split in any manner between prescription drugs and Medicare "reform"— the same as the House plan. Language applicable only to the Senate reserves $20 billion for prescription drugs.

- ***Drug Benefit —*** Unlike the Medicare drug benefit in the Democratic alternative, the Republican plan recently released by their Leadership does not cover all seniors under Medicare. Instead of a universal Medicare benefit, the Republicans provide low-income seniors with a voucher to purchase private drug coverage. About half of all Medicare beneficiaries would not qualify for the voucher.

- ***Medicare "Reform"—*** As in the House plan, prescription drugs can only be provided in a bill that makes unspecified "reforms" to Medicare. The undefined Medicare reform package may consist of increased provider payments or a major overhaul of the Medicare program. In the past, a key feature of Republican proposals to overhaul Medicare has been ending the universal entitlement to health care for people age 65 and older. In lieu of Medicare, seniors would receive a voucher covering a portion of a person's private insurance premiums.

- ***No <u>Required</u> Action —*** There is no "reconciliation directive" requiring a prescription drug bill. Thus, any prescription drug bill will be subject to filibuster and non-germane amendments in the Senate. The tax cuts, in contrast, are ***required*** to be reported by a specified date and are protected from filibusters and non-germane amendments.

- ***Democratic Budget Plan —*** The Democratic alternative provided $40 billion solely for prescription drugs, did not make the funds contingent on unspecified "reform," required committees to report the bill by June 22, and gave it "reconciliation" protection.

Social Security and Medicare Solvency

The conference agreement, like the House and Senate budget resolutions but unlike the House Democratic alternative, does not extend the solvency of the Medicare or Social Security trust funds at all. To the extent some of the $40 billion in Medicare increases is used to pay Part A providers (e.g., hospitals) at greater rates than currently projected, the solvency of the Part A trust fund might be shortened.

The Democratic alternative, in contrast, dedicated to the Social Security trust fund an annual amount equal to the reduction in the interest costs between 2000 and 2010. These additional payments to Social Security (starting in 2011) extended the solvency of the trust fund as much as 15 extra years. In addition, the Democratic plan dedicated $300 billion of the on-budget surplus between 2001 and 2010 to the Medicare Part A trust fund. These additional payments extended the solvency of that trust fund by as much as ten extra years.

Unlike the House and Senate resolutions but like the House Democratic alternative, the conference agreement covers the cost of recent changes in the Social Security earnings limit. Repealing the earnings limit for people age 65-69 increases Social Security outlays temporarily, but over time makes no difference and therefore does not affect the solvency of the Social Security trust funds.

Defense and Non-Defense Appropriated Programs

Unlike the House plan, the conference agreement creates firewalls between defense and non-defense programs, enforced by a Senate point of order that can be waived only by 60 votes and that applies to conference agreements on appropriations bills. The limits on defense and non-defense appropriations are shown in Table 4, below.

Table 4: "Firewalls" Between Defense and Non-Defense Appropriations

2001 amounts in billions of dollars

	BA	Outlays
Defense	310.8	297.7
Non-defense programs	289.5	327.4
TOTAL	600.3	625.1

- ***Defense Funding —*** 2001 budget authority is $20.9 billion above a freeze. This figure is $3.5 billion above the House resolution and $4.5 above the President's budget. Over five years, defense budget authority is $28.5 billion above current services.

- ***Non-defense Funding —*** 2001 budget authority is $6.7 billion below a freeze and $19.5 billion, or 6.3 percent, below current services. Over five years, non-defense programs are below current services by $121.5 billion in budget authority (actual funding) and $101.6 billion in outlays. By 2005, these cuts represent a 9.8 percent loss of purchasing power.

Although history suggests that Congress will not make the non-defense cuts assumed in the Republican budget, it is important to understand what the assumed cuts would do. Following are some examples. The programmatic impact of the cuts is discussed at greater length in *Appropriations* and throughout the analyses of the budget functions.

It is also worth noting that the conference agreement includes $5.5 billion in unspecified cuts for 2001 in the "Allowances" function (Function 920) which, by necessity, must come from actual non-defense programs. Consequently, adherence to the limits on non-defense programs means that Congress must cut appropriated programs *below* the levels specified in an individual function; the cuts may be deeper than specified below and the (few) increases may be smaller or non-existent.

- ***Education —*** The conference agreement provides $56.8 billion for 2001 appropriations for education, training, employment, and social services, almost $5 billion less than the level in the House Democratic budget and the President's budget. The 2001 outlay level in the conference agreement is $600 million below the level needed to maintain constant purchasing power. The conference agreement drops a bipartisan Senate amendment that would have raised the maximum Pell Grant to $3,700 and reduced the size of the five-year tax cut by $2.7 billion.

- ***National Institutes of Health (NIH) —*** The conference agreement presumably increases NIH about $1 billion above a 2000 freeze. For 1999 and 2000, Congress voted on a bipartisan basis to increase NIH funding by 15 percent per year. However, the increase for 2001 provided in the conference agreement is insufficient to continue the 15 percent annual increases required to double NIH funding by 2003.

- ***Science and NSF —*** Funding for science, space, and technology is equal to the level in the House-passed budget. The House had added $600 million to the Republicans' starting level due to Democratic efforts led by Rep. Rush Holt (D-NJ), who offered an amendment in committee mark-up to increase funding for the National Science Foundation by $675 million for 2001 ($3.9 billion over 2001-2005).

- ***Environmental Programs —*** The conference agreement cuts 2001 funding for natural resources and environmental programs by $600 million in purchasing power. By 2005, the level in the conference agreement represents a $2.9 billion (10.7%) cut in purchasing power. The conference agreement is silent regarding the President's Lands Legacy Initiative, but the funding levels leave little room for the President's proposal.

- ***Other Domestic Programs* —** The logical consequence of enforcing the levels of budget authority for appropriated programs in the various functions is that appropriations bills would —

  - eliminate Head Start for more than 40,000 children and their families by 2005;
  - cut more than 600 FBI agents and more than 500 Drug Enforcement Administration agents by 2005;
  - provide Pell Grants to 316,000 fewer low-income students by 2005;
  - cut funds to clean up 40 Superfund sites by 2005;
  - cut the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by almost one-third by 2005; and
  - cut energy research by 29 percent by 2002 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.

Low-Income Programs

The conference agreement increases low-income entitlement/tax benefits by $7.7 billion over five years, including $6.3 billion for the Earned Income Tax Credit,[3] $1.0 billion for Title XX Social Service Grants, and $0.4 billion for some increased health benefits, relative to a projection of existing law. The House-passed budget did not include any EITC or Title XX improvements. (See *Low-Income Programs* for more detail.)

The House Democratic alternative, in contrast, increased entitlement benefits for low-income people by $13.1 billion in outlays *and* as much as $24.2 billion in refundable tax credits, for a total of $37.4 billion. These benefit increases were targeted to Medicaid and SCHIP, Food Stamps, Title XX, SSI, the EITC, and the Dependent Care and the Long-Term Care tax credits.

In addition, low-income appropriated programs fared $32 billion better in the Democratic alternative than in the conference agreement. Specifically, the discretionary outlay totals for two functions — Income Security and Education, Training, Employment, and Social Services — were $32 billion higher in the Democratic alternative. Those functions cover such appropriated low-income programs as Title I education for the disadvantaged, Pell Grants, Head Start, child care, LIHEAP, WIC, and subsidized housing.

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[3] The EITC increase is to mitigate the EITC marriage penalty. Estimates by the Joint Tax Committee show the Senate Finance Committee's EITC proposal costs $5.3 billion in outlays over five years and $1.0 billion in revenues, for a total of $6.3 billion.

Farm Programs

The conference agreement provides $5.5 billion in 2000 and $8.8 billion over the five years 2001-2005 for increased payments to farmers. These amounts are similar to the those in the House resolution. However, the continued squeeze on appropriations to administer farm programs makes delivery of these benefits problematic. See *Function 350, Agriculture*.

Military Retiree Health Care

The conference agreement includes funds to improve health care benefits for military retirees — $50 million for 2001 and $400 million over the 2001-2005 period. In contrast, the House Democratic plan provided $5.4 billion for military retiree health improvements over the 2001-2005 period, and $16.3 billion over the 2001-2010 period. In addition, the House Democratic alternative placed no conditions on the funding, and issued a reconciliation directive to the Armed Services Committee. A reconciliation directive requires the legislation to be reported and protects it from filibusters and non-germane Senate amendments. See *Military Retirees*.

Changes Made By Conference

The conference agreement is very similar to the House-passed budget resolution. See *Highlights of the Conference Agreement versus the House-Passed Resolution* for a detailed comparison. Four of the more notable changes made in conference are:

- ***Tax Cuts —*** Conferees reduced the cost of the five-year tax cut by $25 billion, from at least $200 billion in the House to at least $175 billion in conference agreement.

- ***Mandatory Programs —*** Conferees included $1.0 billion over five years to increase Title XX and $6.3 billion over five years to mitigate the EITC marriage penalty.

- ***Discretionary Programs —*** For 2001, conferees increased defense budget authority by $3.5 billion and non-defense budget authority by $0.2 billion above the House-passed resolution. From 2001-2005, conferees increased defense budget authority by $3.1 billion and non-defense budget authority by $16.6 billion above the House-passed resolution.

- ***Appropriations Firewalls —*** The conference agreement establishes a firewall between 2001 defense and non-defense programs in the Senate, enforced by a new point of order.

Ten-Year Estimates of the Conference Agreement

Last year, the congressional budget resolution covered ten years. The apparent purpose was to show how large a ten-year tax cut could be, perhaps under the assumption that a bigger ten-year figure would attract more public support. Instead, the bigger figure may have attracted more opposition, and subjecting non-defense appropriations to a ten-year freeze, or close to it, highlighted the unrealistic nature of the Republican budget.

This year, in contrast, the Republicans have reverted to a five-year plan. However, last year's experience teaches us to examine the ten-year implications of any budget plan. For that reason, the ten-year ramifications of the conference agreement are estimated in this report.[4] Table 5 (next page) simply extends Table 2 through 2010; the figures in italics represent estimates. Table 5 shows the same story as Table 2:

- ***Republican Plan Requires Deep Non-Defense Cuts —*** The small on-budget surplus in the conference agreement is heavily dependent on enacting permanent and deep cuts in non-defense discretionary appropriations. In fact, by 2010 the average funding cut represents a 14 percent reduction in purchasing power.

- ***The Tax Cut Consumes All of the Projected On-Budget Surplus —*** Again, the size of the tax cut is nearly identical to the size of the on-budget surplus. This is not a surprise, of course. From the day the Republicans became the House majority, their budget plans have made it clear that the purpose of cutting programs is to finance tax cuts.

- ***Nothing for Social Security or Medicare Solvency —*** Not only do the conferees reject the idea of transferring resources to the Social Security and Medicare trust funds, they also make sure that there are little or no on-budget surpluses available to be transferred. With the pending retirement of the baby boomers, it seems wise to build up additional governmental resources by more rapidly paying down the debt. The conference agreement rejects that notion in favor of the largest possible tax cut, thereby diminishing the government's ability to address the costs of the baby boomers' imminent retirement.

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[4] The estimates for 2006-2010 were derived as follows. For appropriated programs, Republican growth rates were simply continued. Specifically, it was assumed that defense budget authority would continue to grow in 2006-2010 at the same average rate as in 2001-2005, and that defense outlays would also grow at that rate. The same methodology was also used for non-defense appropriations.

For entitlement programs, ten-year cost estimates were used where they existed, such as for the EITC policy or the renewal of the existing Customs Service fee after it expires. Most other entitlement increases closely tracked a policy for which there was a cost estimate; for example, the cost of the Medicare increases closely tracks the President's drug benefit as estimated by CBO. It was therefore assumed that these costs would continue to track the President's proposal after 2005.

For revenues, it was assumed that the tax cut would cost four times as much in the second five years as the first five. This assumption reflects a somewhat greater growth rate than in the tax bills the Republicans have brought to the floor so far this year, but a more modest and conservative growth rate than in last year's tax bill. Specifically, it was assumed that the conference tax bill will cost less in years six through ten than last year's tax bill, even though it costs more in years one through five.

Table 5: A Ten-Year Estimate of the Conference Agreement

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	2001	**2002**	**2003**	**2004**	**2005**	***2006***	***2007***	***2008***	***2009***	***2010***	***Ten years***
CBO Surplus w/o Social Security	15	29	36	42	48	*92*	*121*	*138*	*169*	*202*	*893*
Tax cuts	13	27	36	45	53	*82*	*111*	*140*	*169*	*198*	*875*
Medicare	2	5	8	11	14	*18*	*20*	*23*	*26*	*29*	*155*
Non-defense cuts	-12	-13	-19	-26	-32	*-36*	*-39*	*-42*	*-45*	*-49*	*-312*
Defense increases	2	3	2	3	2	*3*	*4*	*-1*	*-4*	*-6*	*8*
Farm payments	2	1	2	2	2	*2*	*2*	*2*	*2*	*2*	*19*
Other mandatory	a	2	1	a	a	*a*	*a*	*a*	*a*	*a*	*4*
Interest costs	1	2	4	6	8	*11*	*16*	*23*	*32*	*42*	*146*
Surplus w/o Social Security	8	2	1	1	a	*11*	*6*	*-7*	*-10*	*-13*	*-2*

May not add due to rounding.
Figures in italics equal staff estimate; see footnote 4 on previous page.
a = less than $½ billion

Comparison With Democratic Plan

Table 6 compares the conference agreement, including an estimate of its ten-year costs, in italics, with the Democratic alternative.

Table 6: Comparing the Conference Agreement with the Democratic Alternative

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	Five-year Totals			**Ten-year Totals**		
	Rep.	**Dem.**	**Diff.**	**Rep.**	**Dem.**	**Diff.**
CBO Surplus w/o Social Security	171	171		*893*	893	
Tax cuts	175	50	-125	*875*	201	-674
Medicare reform & drugs	40	40	0	*155*	155	0
Non-defense cuts	-102	-11	91	*-312*	-35	277
Defense increases	12	10	-2	*8*	34	26
Other mandatory policies	12	17	4	*23*	72	49
Interest cost of policies	21	17	-4	*146*	102	-44
Planned Surplus w/o Social Security	12	48	36	*-2*	365	367

May not add due to rounding.
Figures in italics are estimates.

The key differences between the conference agreement and the Democratic alternative, beyond those obvious from Table 6, follow:

- ***The Democratic Plan is Balanced, While the Republicans Make Tax Cuts Their Top Priority —*** As can be seen, the Democratic alternative divided projected surpluses relatively equally among debt reduction, tax cuts, and program improvements. The conference agreement calls for tax cuts that consume essentially all the projected surpluses.

- ***Medicare and Social Security Solvency —*** The conference agreement does nothing to extend the solvency of the Social Security or Medicare trust funds. The Democratic alternative, in contrast, transferred $300 billion of the on-budget surplus to the Medicare Part A (Hospital Insurance) Trust fund over ten years, extending its solvency by about a decade. And starting in 2011, the Democratic alternative transferred an amount equal to the reduction in federal net interest payments between 2000 and 2010 from the on-budget surplus to the Social Security trust fund, increasing its solvency by an estimated 15 years.

- ***Medicare Prescription Drugs —*** The conference agreement sets aside $40 billion over five years for Medicare, the same as the Democratic alternative. But the conference agreement links the drug benefit to undefined "reform," allows some or much of the $40 billion to go to purposes other than prescription drugs, does not require that the drug benefit be a universal Medicare benefit, and does not use the reconciliation process to make sure Congress actually goes forward with a prescription drug bill. The Democratic alternative has none of those shortcomings.

- ***Debt Reduction —*** The conference agreement devotes $12 billion, or 8 percent, of the projected on-budget surplus to debt reduction over five years, while the Democratic alternative devoted four times as much to debt reduction.

For a more detailed comparison of the two budget plans, see *Highlights of the Conference Agreement versus the Democratic Alternative*.

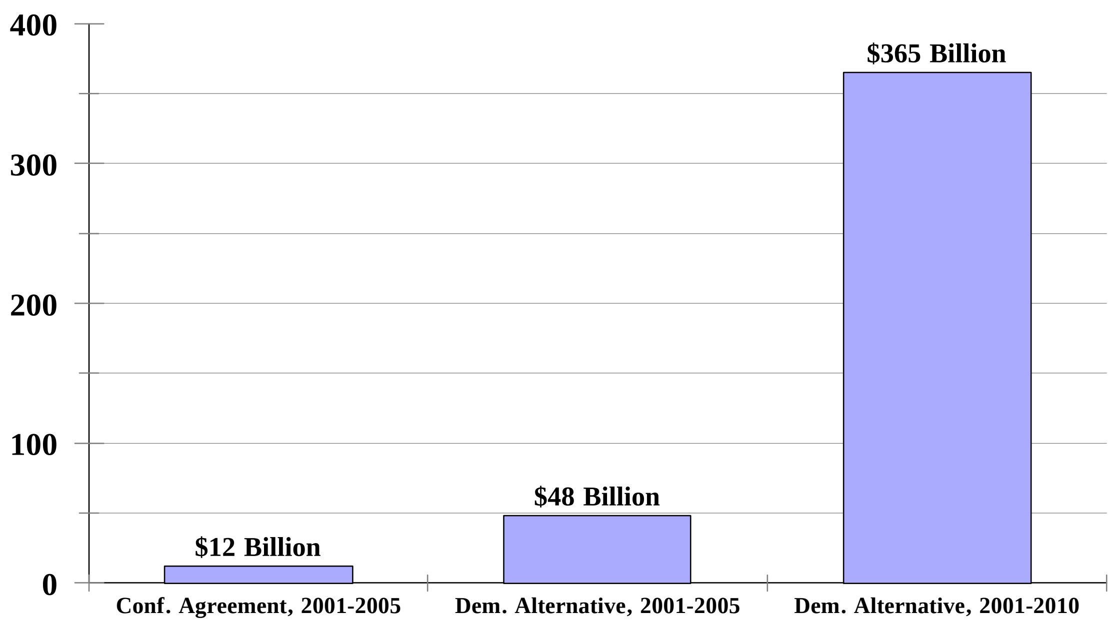
Debt Reduction

The conference agreement on the Republican budget resolution provides that virtually none of the non-Social Security, or on-budget, surplus is used to retire publicly held debt. Over the first five years, the conference agreement devotes only $12 billion, or 8 percent, of the on-budget surplus to debt reduction. After 2005, if appropriations increase at the same pace as assumed for the first five years and the tax cut grows somewhat more slowly than the tax cut bill Congress passed last year, the Social Security surplus begins to be spent starting in 2008.

The above calculations take at face value the conference agreement's unrealistic cuts to real purchasing power for non-defense appropriations. If these cuts do not occur, on-budget deficits appear even sooner, and some of the Social Security surplus is used to fund other government functions rather than pay down debt. It is not plausible to believe that Congress, which has increased funding for non-defense programs faster than inflation over the last four years, will now turn on a dime and start imposing large cuts in non-defense programs. Large projected surpluses make these cuts even harder, especially since the conference agreement jettisons important budget enforcement mechanisms like spending caps and pay-as-you-go rules.

The Democratic alternative budget, which did not receive a single Republican vote in the House, took a more aggressive and fiscally responsible approach to debt reduction. It called for devoting $365 billion over 10 years, or 41 percent, of the on-budget surplus to debt reduction and completely extinguishing the publicly held debt by 2013. The President's budget contained a similar proposal. Furthermore, these projections were not based on unrealistic assumptions about sharp cuts in the real purchasing power of non-defense programs.

Portion of On-Budget Surplus Devoted to Debt Reduction



The Economic Benefits of Paying Off Publicly Held Debt

Most economists, including Federal Reserve Alan Chairman Greenspan, argue that paying down debt held by the public provides significant benefits to the economy. This is why the Fed Chairman has repeatedly testified to the Congress that debt reduction at this time should be the nation's highest priority for fiscal policy. For instance, in January he told the Senate Banking Committee:

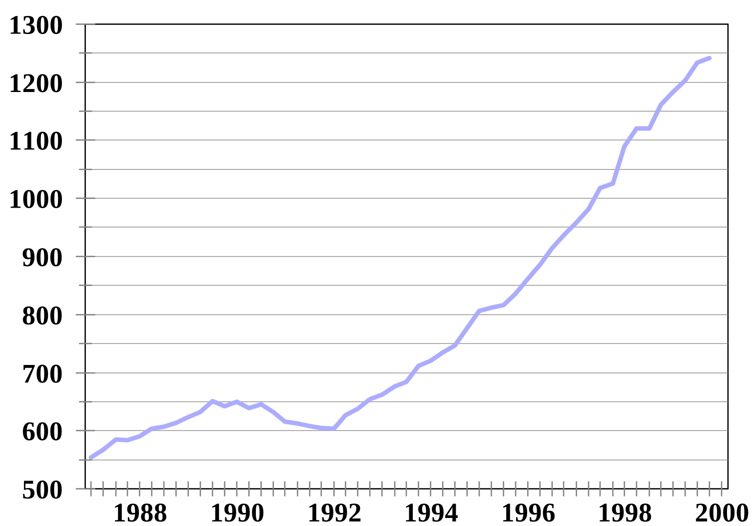
> "...I've said previously to this committee, because of the nature of the type of acceleration in productivity and dynamic change that is occurring in the American economy, my first priority would be to allow as much of the surplus to flow through into a reduction in debt to the public. In my judgment, that would be, from an economic point of view — and I recognize there are other priorities, obviously — from an economic point of view, that would be by far the best means of employing it."

As noted by Chairman Greenspan, withdrawing the federal government's demand for credit from financial markets means that more is available for the private sector. This lowers interest rates and boosts business investment in new plant and equipment. Newer, better equipment in turn boosts workers' productivity. Productivity is the wellspring of rising living standards because it means that the economy and workers' incomes can grow rapidly without igniting inflation.

In the last several years, we have seen dramatic confirmation of economists' reasoning about fiscal discipline and its economic benefits. Real (i.e. inflation-adjusted) business investment has surged at more than a ten percent annual rate over the last five years. This constitutes the strongest sustained expansion in new plant and equipment on record. As a consequence, labor productivity over the last four years has grown at a 2.8 percent average rate. This is the strongest four-year advance in productivity since the economy was recovering from the very deep 1982 recession when unemployment peaked at 10.8 percent. Before that, productivity had not grown this fast since the 1960s.

Real Business Fixed Investment

Billions of 1996 Dollars



Strong productivity growth has supported strong growth in real income. The value of wages, salaries, and benefits after adjusting for inflation has risen at a 2.1 percent annual rate over the last four years, the best pace in over 25 years. This strong income growth has not come at the expense of inflation because the associated productivity gains have held down unit labor costs, which account for about 70 percent of total production costs. In fact, unit labor costs actually have *declined* over the last two quarters.

There is broad agreement that the fiscal discipline that turned persistent deficits into current surpluses and projections of substantial future surpluses has played a crucial role in making the current economic expansion vigorous and long-lived. The economy is now entering its 110th month of expansion, making it the longest upswing in our nation's history. Jobs are plentiful, inflation remains quiescent, and real incomes are rising. We now have the opportunity to pay off the debt that so burdened the economy in the 1980s without asking the citizens to sacrifice in order to accomplish it.

Preparing for the Retirement of the Baby Boom Generation

In addition to the current economic benefits of continuing on the path of debt reduction, it is crucial that the federal government do its utmost to strengthen its finances over the next decade. Shortly after 2010, the Baby Boom generation will begin to retire, boosting expenditures for Social Security and Medicare. As Federal Reserve Chairman Greenspan and other economists have stressed, paying off the publicly held debt is a powerful, though indirect, means of preparing for the fiscal challenges that this demographic wave will create.

One reason that debt reduction will help to prepare for the retirement of the Baby Boom generation already has been discussed above. Because debt reduction promotes new investment and faster productivity growth, it creates a larger future economy. This means that the economic burden of caring for a large dependent population in the future can be borne more easily. Irrespective of how Social Security and Medicare are made solvent, having a larger economic "pie" in the future means that the working population will have higher real incomes to enjoy at the same time that society is providing for the non-working elderly.

In addition, paying off publicly held debt will strengthen the federal government's finances as it prepares for the fiscal burdens that will arise after 2010. This is the logic behind the Social Security and Medicare proposals in both the President's budget and the Democratic alternative budget. Paying down the debt will reduce the associated annual interest burden. In 1999, interest on the publicly held debt was the third largest spending item in the budget, totaling $230 billion for just that one year. Removing this annual expense from the government's books would create far more latitude to address the budget pressures associated with the retirement of the Baby Boom generation. (For further discussion, see *Social Security and Medicare Solvency*.)

Medicare Prescription Drugs

The conference agreement on the Republican budget resolution includes $40 billion over five years for Medicare reserve funds. Although the conference agreement provides the $40 billion, it does not resolve the structural differences between the House and Senate versions of the reserve fund. These reserves may be used for similar purposes, including a prescription drug benefit. However, the conditions attached to the use of reserve funds differ significantly.

Furthermore, the conference agreement does not include reconciliation directives in either body for the Medicare reserves. Therefore, neither the House nor the Senate is required to act on any Medicare or prescription drug legislation at all.

Two Reserve Funds for Medicare

Unlike the Democratic alternative resolution, which provided an immediate Medicare prescription drug benefit for all seniors, the conference agreement increases Medicare spending by $40 billion over five years (2001-2005) relative to projections of current law by creating two reserve funds for Medicare. It creates a House reserve fund and a Senate reserve fund for prescription drug benefits and other Medicare reform or legislation.

The House Medicare Reserve Fund

The House Medicare reserve fund follows the House resolution. It increases Medicare spending by $2.0 billion for 2001 and $40 billion over five years (2001-2005) relative to projections of current law. The House reserve fund provides for an undefined Medicare reform plan and an undefined prescription drug benefit. The drug benefit appears to be available only if it is part of the reform plan. The conference agreement describes a bill that "reforms the Medicare program *and* provides coverage for prescription drugs." (emphasis added)

- ***Undefined Prescription Drugs —*** Unlike the Democratic alternative, the conference agreement does not require that the undefined prescription drug benefit be available to all Medicare beneficiaries through the Medicare program.

  When House Republican leaders recently unveiled their principles for a prescription drug plan, it became clear that the Republican drug plan is not a defined Medicare benefit. Instead, it will be a voucher intended to offset some of the costs of private insurance coverage that provides whatever benefits an insurance company may decide to offer.

  In addition, the Republicans do not intend to provide universal prescription drug coverage for all seniors through the Medicare program. According to the Republican principles, only low-income seniors will have benefits. Even these seniors will then have to fend for themselves and hope that an insurance plan in the private market might meet some of their needs for prescription drug benefits.

- ***Republican Plan Ignores Half of Those Without Drug Coverage —*** The guidelines announced by the Republicans appear to provide benefits for low-income seniors only. An income-tested prescription drug benefit ignores the needs of the majority of Medicare beneficiaries. Over half of those without Medicare drug coverage have annual incomes *above* 150 percent of poverty ($12,525 for singles; $16,875 for couples), which may be the Republican cut-off point.

- ***Undefined Medicare Reform —*** The undefined Medicare reform package envisioned by the conference agreement may consist of increased provider payments or a major overhaul of the Medicare program. In the past, a key feature of Republican proposals to restructure Medicare has been replacing the current guaranteed defined benefit with a defined contribution. This means ending the universal entitlement to health care and replacing it with a voucher covering a portion of a person's costs for a private insurance plan.

The Senate Medicare Reserve Fund

The Senate Medicare reserve fund also increases Medicare spending by $40 billion over five years (2001-2005) relative to projections of current law. The reserve is divided into two equal parts and the allocation of the $40 billion must not cause an on-budget deficit in any fiscal year.

- ***Prescription Drugs —*** The first part of the Senate reserve provides $20 billion over five years (2001-2005) for an undefined prescription drug benefit provided through the Medicare program, not the private market.

- ***Other Medicare Legislation —*** The second part of the reserve provides another $20 billion over five years (2001-2005) for unspecified Medicare legislation that extends the solvency of the Medicare Trust Fund without the use of new general fund subsidies. These funds may also be used "to continue or improve access" to the Medicare drug benefit provided by the first part of the reserve.

For further discussion of Medicare, see *Function 570: Medicare*.

Social Security and Medicare Solvency

The conference agreement on the Republican budget resolution does nothing to extend the solvency of either Social Security or Medicare. Throughout the debate on the conference agreement, Republicans strenuously argued that their budget protected Social Security because it just barely avoided spending any of the Social Security surplus, provided one accepted their unrealistic assumptions about future cuts in non-defense appropriations. Unfortunately, merely protecting the Social Security surplus does not extend Social Security's solvency by even one day. Of course, it does nothing for Medicare either.

By contrast, both the President's budget and the Democratic alternative budget not only protected Social Security but also used the benefits of significant debt reduction to extend the solvency of both Social Security and Medicare. For instance, the Democratic alternative budget extended the solvency of Social Security up to 15 years and of Medicare up to 10 years by dedicating the beneficial effects of the government's debt reduction to those purposes.

The Democratic alternative budget credited the Social Security trust fund with additional Treasury bonds, just like those that the trust fund already holds. New Treasury bonds would be added to the trust fund in amounts equal to the reduction in government interest expense from ten years of debt repayment. In 1999, interest on the publicly held debt was the third largest spending item in the federal budget, totaling $230 billion.

In the Democratic budget, interest on publicly held debt dropped to $76 billion by 2010. By 2013, the Democratic alternative repaid the entire publicly held debt, and therefore the cost of servicing the debt disappeared. The Social Security trust fund would receive additional assets exactly matching this reduced interest expense, but this would not occur until 10 years of debt reduction had actually occurred. This constituted a credible "lockbox" for Social Security in that any tampering with the path of debt reduction would automatically be reflected as a reduction in the amount of new assets going to the trust fund and a shortening of Social Security solvency.

The Democratic alternative budget had a slightly different mechanism for extending Medicare solvency. In this case, $300 billion over ten years of the on-budget surplus was explicitly dedicated to debt reduction on top of the debt reduction already due to saving the Social Security surplus. For each dollar of additional debt reduction, the Medicare Part A trust fund was credited with an additional dollar of assets to reflect the shrinking of the public debt.

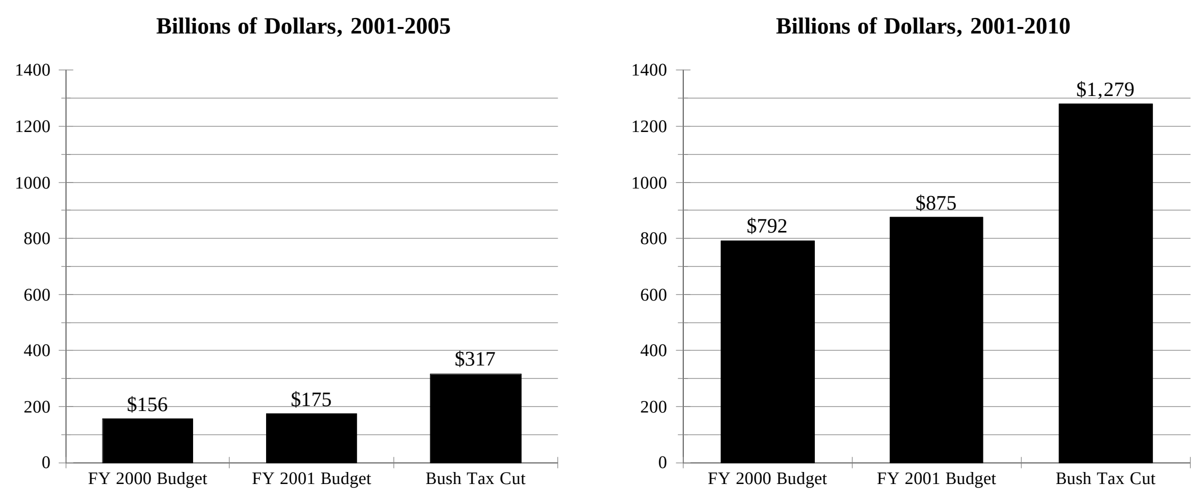
The fact that the conference agreement on the Republican budget resolution does not even offer a proposal addressing Social Security and Medicare solvency is troubling. The looming difficulties that these two programs face when the Baby Boom generation retires shortly after 2010 are the largest fiscal issues facing the country. Prudent and measured steps taken now can avoid the necessity for more drastic measures once the problems are upon us. The conference agreement's failure to address the premier budgetary issue of the day is a serious shortcoming.

Revenues

The centerpiece of the conference agreement on the Republican budget resolution is a large tax cut that is likely to exceed the tax package Republicans proposed last year. Last year's tax cut resulted in a direct revenue loss of $156 billion over five years and $792 billion over ten years. Because enacting such a tax cut would reduce the pace of debt reduction assumed in CBO's baseline, last year's cut had a total cost of $929 billion over ten years once the associated debt service costs were added.

The conference agreement provides for a total tax cut of $175 billion over five years, compared with a total tax cut of $200 billion in the House resolution. The agreement's tax cut consists of a $150 billion reconciliation directive and a $25 billion reserve fund for additional tax cuts. The House resolution also had a $150 billion reconciliation directive but had a larger reserve fund of $50 billion for additional tax cuts. In addition, the conference agreement establishes a reserve fund to provide additional tax cuts to whatever extent CBO increases projected surpluses in its summer budget update.

Five- and Ten-Year Costs of Republican Tax Cuts



Unlike last year's budget resolution, this year's does not show the ten-year cost. However, tax cuts tend to grow over time because of phased-in provisions and the growth of the tax base as the economy expands. For instance, the ten-year cost of last year's tax cut was more than five times its five-year cost. Even if this year's tax cut grows a bit more slowly than last year's, it would still cost approximately $875 billion over ten years. If one includes the added debt service, the total cost of the resolution's tax cut could easily exceed $1 trillion. (See Footnote 4 on page 12 for a fuller explanation.)

Because Republicans give overriding primacy to tax cuts over other budget priorities, the House already had passed two tax cut bills this session before it even considered a budget resolution. Including legislation that passed the House last session, the budget must accommodate the following three major tax bills: an attempt to address the marriage penalty; a package of cuts attached to the increase in the minimum wage; and a medical access bill based on tax preferences, which is in conference.

The table below shows the budgetary costs of these three bills. With the associated debt service costs, these bills consume more than half of the on-budget surplus under a scenario that assumes zero real growth in appropriations. In addition to the bills that already have passed the House, Republicans have announced their intention to move legislation for tax-preferred education savings accounts, expanded IRAs, lower estate taxes, and tax preferences for local economic development.

Republican Tax Cuts That Already Have Passed the House
(JCT scoring, in billions of dollars)

	2001	**2001-2005**	**2001-2010**
H.R. 6, Marriage penalty bill	4.1	50.7	182.3
H.R. 3832, Minimum wage tax provisions	2.4	45.3	122.3
H.R. 2990, Health access	0.6	13.0	68.5
Total with duplicating provisions removed	**6.8**	**106.8**	**371.0**
Debt service	0.2	12.2	83.1
Total including debt service	**7.0**	**119.1**	**454.0**

Although Republicans used parliamentary maneuvers both in Committee and on the House floor to avoid voting on the package of tax cuts proposed by their presumptive presidential candidate, Governor George W. Bush, they have adamantly insisted throughout that they consider this year's resolution "a significant down payment" on the Bush tax cut. In addition to many provisions already passed in other tax legislation this year, the Bush tax cut also features significant cuts in tax rates. Such lower rates substantially increase the revenue loss of the Bush tax cut. The Bush campaign claims that these tax proposals cost $483 billion over five years (starting in 2002). The ten-year cost is estimated by the Bush campaign to be $1.3 trillion for 2002 through 2011.[5]

A tax cut of this magnitude would not be able to avoid using the Social Security surplus, would force even more severe cuts in non-defense appropriations, or both. This is illustrated in the table on the next page.

[5] Attributed to Bush spokesman Ari Fleischer, *Daily Tax Reporter, BNA Inc.*, April 26, 2000

The Republican Budget Resolution: Conference Agreement Adjusted to Use the Bush Tax Cut

All figures exclude the Social Security surplus; plus signs indicate costs; dollars in billions

	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	15	29	36	42	48	171	893
Tax cuts proposed by Gov. Bush	13	26	68	85	129	320	1,282
Medicare reform & drugs	2	5	8	11	14	40	155
Non-defense cuts	-12	-13	-19	-26	-32	-102	-312
Defense increases	2	3	2	3	2	12	8
Farm payments	2	1	2	2	2	9	19
Other mandatory policies	a	2	1	a	a	4	4
Interest costs of policies	1	2	4	8	14	30	252
Surplus or Deficit (-) w/o Social Security	8	3	-31	-41	-81	-142	-515

May not add due to rounding.

a = less than $½ billion

** Outlay estimates for 2006-2010 were projected based on spending policies in 2001-2005. Revenue estimates equal the conference agreement for 2001 and estimates of the Bush tax cut by Citizens for Tax Justice for 2002-2006 (which equal $483 billion, the same cost claimed by the Bush campaign); revenue losses grow only with the economy after 2006.*

Low-Income Programs

The conference agreement on the Republican budget resolution includes nearly $8.0 billion in mandatory funding increases for low-income programs over five years, none of which were included in the House resolution. The Senate budget resolution, in contrast, contained mandatory spending increases that were larger than the conference agreement. The conference agreement stands in stark contrast to the House Democratic alternative, which provided $37 billion over five years to expand mandatory programs and refundable tax credits serving working families and vulnerable people. For example, the Democratic alternative included expansions to the Title XX Social Services Block Grant, the Earned Income Tax Credit (EITC), benefits for legal immigrants, Food Stamp Program improvements, Medicaid and SCHIP expansions, expansions to the Child and Dependent Care Tax Credit, and a new refundable long-term care credit.

For key appropriated low-income programs, the conference agreement freezes or cuts funding, similar to funding levels provided by the House budget resolution. The Democratic alternative, on the other hand, maintained the current purchasing power or increased funding for key discretionary programs including large increases for Head Start, child care, and Section 8 housing vouchers.

- ***Title XX Social Services Block Grant*** — Relative to current law, the conference agreement increases funding for Title XX by $50 million for 2001 and $1.0 billion over five years. The House resolution funded Title XX at its current law levels, while the Senate resolution provided an additional $100 million for 2001 and $3.4 billion over five years. The Democratic alternative also substantially increased funding for Title XX, providing $150 million more in 2001 and $750 million more over five years.

- ***Earned Income Tax Credit (EITC)*** — Similar to the Senate budget resolution, the conference agreement expands the EITC, reflecting changes related to elimination of the marriage tax penalty. The conference agreement increases annual EITC outlays by $1.3 billion per year beginning in 2002, relative to a baseline projection of current law, for a total increase of $5.3 billion over five years. The total EITC expansion is even larger, since these outlays reflect only the refundable portion. The associated change in revenues is reflected within the tax cut assumed by the conference agreement. The House resolution included unspecified tax cuts of at least $150 billion and did not indicate how these cuts would be achieved. The Democratic alternative, in contrast, specified $9.9 billion over five years in EITC expansions to create a "third tier" for families with three or more children; to expand the credit for families with two or more children; and to mitigate the marriage tax penalty.

- ***Section 8 Housing Assistance*** — Like both the House and the Senate budget resolutions, the conference agreement assumes full funding of all expiring Section 8 housing vouchers.

The House Democratic plan not only would have maintained all existing Section 8 contracts, but also would have funded an additional 40,000 incremental vouchers.

- ***Child Care*** — Discretionary funding for the Child Care and Development Block Grant (CCDBG) falls below a hard freeze under the conference agreement, assuming that cuts within Function 600 (Income Security) are distributed across-the-board. (See also *Function 600*). In 2001, the CCDBG would experience a 7.4 percent loss in real purchasing power, eliminating child care subsidies to 22,000 low-income children with working parents. The conference agreement does not increase mandatory child care funding, unlike the Senate resolution which provided an additional $817 million in mandatory child care funds for 2001. The Democratic alternative increased funding for the CCDBG by $500 million for 2001 and by $2.7 billion over five years. It also substantially expanded the Child and Dependent Care Tax Credit by $7.1 billion over five years to make the credit refundable, to increase the credit for low- and middle-income families, and to extend the credit to parents who stay at home with an infant.

- ***Head Start*** — Like the House resolution, the conference agreement freezes funding for Head Start, eliminating services to more than 40,000 children by 2005. (See also *Function 500*). The Senate resolution increased Head Start funding for 2001 by either $155 million or $255 million (the exact increase was unclear in descriptions of the Senate plan). The Democratic alternative, on the other hand, provided a $1.0 billion increase for Head Start in 2001 to serve an additional 70,000 children.

- ***Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and Low Income Home Energy Assistance Program (LIHEAP)*** — Appropriations for both WIC and LIHEAP falls below a hard freeze under the conference agreement, assuming that cuts within Function 600 (Income Security) are distributed across-the-board. (See also *Function 600*). In 2001, these programs experience a 7.4 percent loss in real purchasing power. As a result, in 2001 WIC will serve 558,000 fewer women, infants, and children, and LIHEAP will cut assistance to nearly 300,000 low-income households. The Democratic alternative maintained the current purchasing power of both of these programs.

- ***Reserve Fund for S-CHIP and Medicaid*** — The conference agreement includes a reserve fund increasing spending slightly for Medicaid and S-CHIP by $50 million for 2001 and by $250 million over five years (2001-2005), relative to projections of current law. This is about half the increase provided in the Democratic alternative or the House resolution. Money in this reserve fund may be released by the Budget Committee chairman of the House or Senate.

  These increases were first proposed by Rep. Tammy Baldwin (D-WI) and Rep. Ken Bentsen (D-TX) to expand access to affordable health insurance for vulnerable people. The reserve fund may be used for the following program improvements:

1) ***Accelerated Medicaid and S-CHIP Enrollment —*** The conference agreement: (a) allows additional sites to enroll children immediately (presumptive eligibility) in the programs; (b) allows sharing of school lunch eligibility information; and (c) requires states to simplify and align their Medicaid and S-CHIP enrollment processes.

2) ***Medicaid Cancer Treatment for Uninsured Women —*** The conference agreement includes a state option for Medicaid coverage and immediate eligibility for uninsured women who are diagnosed with breast or cervical cancer through the Centers for Disease Control's screening program.

- ***Disabled Children's Reserve Fund —*** Unlike the House resolution, the conference agreement includes a reserve fund for health programs designed to allow children with disabilities to obtain access to home health services and enable their parents to seek employment. The reserve allows increased spending of $25 million for 2001 and $150 million for 2001-2005.

- ***Other House Democratic Initiatives for Vulnerable People*** — In addition to the provisions noted above, the Democratic alternative included several other expansions to programs serving working families and vulnerable people. It restored Supplemental Security Income (SSI) benefits, food stamps, and Medicaid to certain legal immigrants who lost assistance due to the 1996 welfare law, providing $60 million in 2001 and $3.8 billion over five years for these benefit restorations. In addition, the Democratic alternative included $10 million in 2001 and $1.1 billion over five years for Food Stamp Program improvements. Finally, it assumed changes to the federal child support program to increase collections and pass on more support to families, which increased federal costs by $309 million over five years.

Federal Employees

The conference agreement on the Republican budget resolution includes pay raises for federal employees and repeals delayed pay dates for civilian employees.

- ***Federal Employees Pay Raise*** **—** The conference agreement increases federal civilian pay rates by 3.7 percent in January 2001, the same as the raise for military personnel.

- ***Repeal of Delay in Civilian Pay Day*** **—** The conference agreement assumes the enactment of the 2000 Supplemental Appropriations bill, which includes a provision that repeals a delay in pay dates for federal civilian employees who were scheduled to be paid on September 29 or September 30, 2000. Under the delay, they were to be paid on October 1, 2000, the first day in fiscal year 2001. The conference agreement restores the pay date to its original schedule, shifting approximately $768 million in spending back to 2000. This provision also applies to military personnel but the shift in DOD payments is reflected in Function 050 (Defense).

Along with the pay raise and repeal of delay in civilian pay day, the Democratic alternative resolution contained several additional benefits relating to civilian pay and retirement that were included in the Administration's 2001 budget request. These provisions were not included in the conference agreement.

- ***Repeal of Increased Employee Contribution to Retirement Plans*** **—** The Democratic alternative repealed a 1997 provision that increased employee payroll contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for all federal employees beginning in January 1999. The higher contribution rates are scheduled to expire in 2003. The Democratic alternative restored federal employees' contribution rates to the lower 1997 levels two years early, saving federal employees $1.2 billion over 2001 through 2003. By contrast, the conference agreement fails to repeal this tax on federal workers.

- ***Buyouts*** **—** The Democratic alternative allowed agencies to offer government-wide voluntary separation incentives of up to $25,000 to support continuing agency downsizing efforts. Currently, buyout authority is available on an as-needed basis to any federal agency that is downsizing or restructuring, as is the case with DoD, the Department of Energy, and the Department of Veterans Affairs.

- ***Long-term Care Insurance*** **—** The Democratic alternative made private long-term care insurance available at negotiated group rates to federal employees, retirees, and qualifying family members. The Office of Personnel Management (OPM) anticipates long-term care policies being available to the federal community at 15 to 20 percent below private insurance rates.

- ***Thrift Savings Plan (TSP)* —** The Democrative alternative allowed immediate participation in the Thrift Savings Plan (TSP) by new federal employees, and also permitted employees to roll over funds from private-sector retirement plans into their TSP accounts. Under current law, new or rehired federal employees must wait six to twelve months before contributing to the TSP and there is no rollover provision for private-sector plans.

- ***Federal Employees Health Benefits program (FEHBP)* —** The Democratic alternative instructed OPM to work harder to control the growth of FEHBP premiums by leveraging the purchase power of the federal government in order to enable OPM to offer improved dental benefits. The Democratic alternative also provided federal employees with the same coverage for mental and substance abuse as for any other health condition and continued the requirement that the FEHBP plans offer contraceptive coverage.

Military Retirees

Currently, military retirees over the age of 65 lose guaranteed access to the Department of Defense (DOD) health care system. Of particular concern to many of these military retirees is that they lose guaranteed access to DOD's prescription drug coverage plans. The Chairman of the Joint Chiefs of Staff, Gen. Henry Shelton, has testified that guaranteeing life-time health care is important not only to keep the promises made to those who dedicated their careers to military service, but also to attract and retain quality personnel today.

The Republican Budget Resolutions

The House resolution did not include any funding for improving health care for military retirees. As is described in greater detail below, the House Democratic alternative resolution provided $16.3 billion over ten years for improving health care for Medicare-eligible military retirees.

The Senate resolution as reported out of committee also included no funding for improving health care for military retirees. On the Senate floor, Sen. Tim Johnson (D-SD) successfully offered an amendment to the Senate resolution providing that any portion of the on-budget surplus could be used to cover the costs of legislation improving health care for military retirees.

The Republican conference agreement ignored both the House Democratic alternative and the Johnson Amendment, making a token gesture towards military retirees. The conference agreement establishes a "reserve fund" of $400 million over five years to improve military retiree health care. However, the resolution does not direct that such legislation occur, and the "reserve fund" disappears if there is an on-budget deficit.

Comparison to the Democratic Alternative Resolution

In stark contrast, the Democratic alternative provided $5.0 billion more for military retiree health care than the Republican conference agreement over the 2001-2005 period (a total of $5.4 billion). Over ten years, 2001-2010, the Democratic alternative provided $16.3 billion for military retiree health care. In fact, the Democratic alternative spent more for military retirees in 2001 alone ($437 million) than the Republican conference agreement does over five years. Moreover, the Democratic alternative directed the Armed Services Committee to report legislation, and this reconciliation directive would have protected the legislation from a Senate filibuster or non-germane amendments that could jeopardize the legislation.

Highlights of the Conference Agreement versus the Democratic Alternative

During floor debate on the budget resolution for 2001, Rep. John M. Spratt, Jr., Ranking Democratic Member of the House Budget Committee, offered a substitute budget resolution. That Democratic alternative was a ten-year budget plan running through 2010. The Republican conference agreement, in contrast, is only a five-year plan. Therefore, this section compares the Republican plan with the first five years of the Democratic alternative, and also compares a ten-year estimate of the Republican plan with the full ten years specified in the Democratic alternative.[6]

Table 1 summarizes the different uses the two plans make of CBO's projected on-budget surplus (the surplus excluding Social Security and the Postal Service).[7]

Table 1: Comparing the Conference Agreement with the Democratic Alternative

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	Five-year Totals			Ten-year Totals		
	Rep.	**Dem.**	**Diff.**	**Rep.**	**Dem.**	**Diff.**
CBO Surplus w/o Social Security	171	171		*893*	893	
Tax cuts	175	50	-125	*875*	201	-674
Medicare reform & drugs	40	40	0	*155*	155	0
Non-defense cuts	-102	-11	91	*-312*	-35	277
Defense increases	12	10	-2	*8*	34	26
Other mandatory policies	12	17	4	*23*	72	49
Interest cost of policies	21	17	-4	*146*	102	-44
Planned Surplus w/o Social Security	12	48	36	*-2*	365	367

May not add due to rounding.
Figures in italics are estimates.[6]

[6] For an explanation of the methodology used to estimate the ten-year figures for the conference agreement, see footnote 4 on page 12, in the *Overview*.

[7] With respect to the "off-budget" federal agencies, the two plans each reflect the repeal of the "Social Security earnings limit" for people age 65-69. Off-budget dollar figures differ only because the conference agreement uses a cost estimate reflecting faster enactment of that legislation.

The Democratic Plan is Balanced, While the Republicans Make Tax Cuts Their Top Priority

The conference agreement, like the House and Senate budget resolutions, devotes essentially all of CBO's projected on-budget surplus to tax cuts. This means that no resources will be left over to enhance the solvency of the Social Security and Medicare trust funds, or more generally to reduce debt in anticipation of the budgetary pressures that will arise when the baby boomers begin to retire at the end of this decade. Stated differently, it means that tax cuts are the Republicans only significant priority, and that little or nothing is left either for debt reduction or, in net, for current needs that require a national response. While the conference agreement increases some programs, such as defense and Medicare, it makes even deeper cuts in others, as Tables 1 and 2 indicate.

The Democratic alternative, in contrast, balanced the three priorities of debt reduction, tax cuts, and current national needs. Whether over five or ten years, the Democratic alternative devoted approximately equal amounts of resources to debt reduction, tax cuts, and program improvements.

The difference in emphasis and balance between the conference agreement and the Democratic alternative is displayed in Table 2.

Table 2: Contrasting Uses of CBO's Projected On-Budget Surplus

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	Five-year Totals		Ten-year Totals	
	Rep.	Dem.	Rep.	Dem.
Debt Reduction	12	48	*-2*	365
Tax Cuts	175	50	*875*	201
Net Program Changes	-37	56	*-126*	225

Note: This table does not show the debt service changes that flow from the tax cuts and spending policy changes. Figures in italics are estimates.

Major Differences Between the Conference Agreement and the Democratic Alternative

In brief, the main differences between the conference agreement and the Democratic alternative, as shown in Tables 1 and 2 and elsewhere in this analysis, are as discussed below. Each of these issues is discussed in greater detail in other sections of this analysis.

- ***Debt Reduction —*** The conference agreement devotes $12 billion, or 8 percent, of the projected on-budget surplus to debt reduction over five years, while the Democratic alternative devoted four times as much to debt reduction. Over ten years, the conference agreement devotes nothing to debt reduction while the Democratic alternative devoted 41 percent of the projected surplus to that purpose. (See *Debt Reduction*.)

- ***Tax Cuts* —** The conference agreement emphasizes tax cuts above all other priorities, devoting essentially all of the projected on-budget surplus to tax cuts over five years and over ten years. Neither the conference agreement nor the statement of managers specifies the purposes of the tax cuts. (See *Revenues*.)

  The Democratic alternative, although calling for substantial net tax cuts, devoted about 29 percent of the five-year surplus and 23 percent of the ten-year surplus to tax cuts. The text of the Democratic alternative set forth a number of purposes to which the tax cuts could have been devoted.[8]

- ***CBO Summer Re-estimates* —** This August, CBO is expected to estimate that the surplus will be larger than it currently projects. Under the terms of the conference agreement, if CBO estimates a larger surplus, the Budget Committee Chairmen may allow some or all of the increase to be devoted to still larger tax cuts. In other words, the five-year tax cut will grow from $175 billion to some larger amount. Any of the CBO re-estimate not devoted to increasing the tax cut will perforce increase the resulting surplus and therefore the amount of debt reduction. None of the extra surplus can be used to relieve the pressure on non-defense appropriations or otherwise improve federal programs. (In the unlikely event CBO's August forecast shows a smaller surplus than previously forecast, the size of the tax cut is not reduced.)

  The Democratic alternative would not have changed its tax or programs policies in any event. If, as expected, CBO were to increase its projected surplus, the Democratic alternative would have devoted all the improvement to extra debt reduction.

- ***Non-Defense Appropriations* —** The conference agreement cuts non-defense appropriations by $121 billion in budget authority and $102 billion in outlays over five years, relative to the existing level adjusted only for inflation, i.e. adjusted only to keep purchasing power constant. (See *Appropriations*.) The Democratic alternative, in contrast, did not make such

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[8] The text of the Democratic alternative is printed on pages 78-90 of H Rept 106-535, and an explanation is available at http://www.house.gov/budget_democrats/papers.htm. Among the tax cuts contemplated by the Democratic alternative are: marriage penalty relief; AMT (alternative minimum tax) relief; EITC and Dependent Care Tax Credit improvements; a new long-term care tax credit; incentives for school construction and renovation; credits or deductions for post-secondary education, medical insurance, retirement accounts, and the employment of welfare beneficiaries and low-income workers; estate tax relief; community development (EZs); and the revenue costs of the patient protections in the Dingell-Norwood Patients' Bill of Rights Act.

cuts. It increased some programs, such as education programs, above such a baseline, and tended to cut only those programs that had one-time costs in 2000, such as the Census Bureau.

- ***Medicare and Social Security Solvency —*** The conference agreement does nothing to extend the solvency of the Social Security or Medicare trust funds. The Democratic alternative, in contrast, transferred $300 billion of the on-budget surplus to the Medicare Part A (Hospital Insurance) Trust fund over ten years, extending its solvency by as much as a decade. And starting in 2011, the Democratic alternative transferred an amount equal to the reduction in federal net interest payments between 2000 and 2010 from the on-budget surplus to the Social Security trust fund, increasing its solvency by as much as 15 years. (See *Medicare and Social Security Solvency*.)

- ***Medicare Prescription Drugs —*** The conference agreement sets aside $40 billion over five years for Medicare, the same as the Democratic alternative. But beneath the numbers lie profound differences. To begin with, the Democratic alternative devoted *all* the $40 billion to a universal Medicare prescription drug benefit. The conference agreement, in contrast, allows an unknown portion of the $40 billion to be used for other Medicare purposes, such as increased provider payments or Medicare "reform." In the House, the drug benefit is linked to and apparently contingent on a reform package, although the term "reform" is not defined.

  Additionally, the drug benefit in the conference agreement need not be universal or be a Medicare benefit. House Republicans have discussed providing a voucher to low-income seniors assisting them in purchasing a private prescription drug insurance policy, although insurance companies do not currently offer such policies. (See *Medicare Prescription Drugs*.)

  Finally, the conference agreement does not use the reconciliation process to enact Medicare changes, which means there is no certain date by which any such legislation must be reported, nor even a requirement that a bill ever be reported. And the bill, if reported, is not protected from Senate filibusters or non-germane Senate amendments. The Democratic alternative, in contrast, used the reconciliation process to make sure the drug benefit would be reported and could move unhindered through the Senate.

  In fact, this approach is true throughout the budget — none of the benefit increases in the conference agreement is included in the reconciliation process, while all of the benefit increases in the Democratic alternative were given the protection and guarantee of the reconciliation process.

- ***Other Health Benefits —*** The conference agreement provides $400 million over four years to improve access to Medicaid and SCHIP for selected people. The Democratic alternative, in contrast, provided $9.3 billion or 23 times as much over the same period for Medicaid and SCHIP eligibility expansions, *and* an additional $7.2 billion for a new long-term care refundable tax credit.

- ***Education —*** In the education function, the Democratic alternative provided more funding for appropriated programs than the conference agreement in every year. In 2001 the Democratic alternative provided $4.8 billion more than the conference agreement, and it provided $19.1 billion more over five years. For 2001, the higher funding in the Democratic alternative would have supported the following: (1) the third installment of the President's initiative to improve student achievement by hiring 100,000 teachers over seven years to reduce the average size of classes; (2) assistance to renovate crumbling schools through loans, grants, and tax credits; (3) doubling the size of the after-school program, enough to allow each low-performing school to provide extended learning services to all their students; (4) increasing Head Start by $1 billion; and (5) increasing the maximum Pell Grant award to $3,500. (See *Function 500, Education, Training, Employment, and Social Services*.)

  Furthermore, the above figures probably understate the degree to which the Democratic alternative improved upon the conference agreement. To begin with, the conference agreement does not provide enough outlays to support its budget authority, so some of the education funding it purports to provide cannot be used. In addition, the conference agreement requires the Appropriations Committee to make $5.5 billion in "unspecified cuts" for 2001, which will have to come from actual non-defense programs and may come in part from education funding set forth in the conference agreement. The Democratic alternative does not assume any "unspecified cuts."

- ***Environmental Programs —*** For 2001, the conference agreement provides $800 million less in appropriations for natural resources and environmental programs than the Democratic alternative. Over 2001-2005, the conference agreement provides $9.2 billion less than the Democratic alternative. The conference agreement does not specify any assumptions regarding the President's Lands Legacy Initiative, but its funding levels leave little room for the President's proposal. In contrast, the Democratic alternative fully accommodated the Lands Legacy Initiative and fenced off the funding to ensure that it would go to conservation programs, and funded the President's other environmental initiatives as well. (See *Function 300, Natural Resources and Environment*.)

- ***Programs for Low-Income People —*** The conference agreement improves entitlement/tax benefits for low-income people by $7.7 billion over five years, primarily through an increase in the EITC and an increase in Title XX social service grants. On the other hand, it squeezes appropriated programs servicing low-income people in Functions 500 and 600.

The Democratic alternative, in contrast, increased entitlement benefits for low-income people by $13.1 billion in outlays *and* as much as $24.2 billion in refundable tax credits, for a total of $37.4 billion. These benefit increases were targeted to Medicaid and SCHIP, Food Stamps, Title XX, SSI, the EITC, and the Dependent Care and the Long-Term Care tax credits.

In addition, low-income appropriated programs in Functions 500 and 600 fared $32 billion better over five years in the Democratic alternative than in the conference agreement. Those functions cover such appropriated low-income programs as Title I education for the disadvantaged, Pell Grants, Head Start, child care, LIHEAP, WIC, and subsidized housing. (See *Low-Income Programs*; *Function 500, Education, Training, Employment, and Social Services*; and *Function 600, Income Security*.)

- ***Economic and Community Development —*** The Democratic alternative resolution maintained purchasing power for community and regional development programs for all of years 2001 through 2005. For 2001, the Democratic alternative provided $2.5 billion more than the conference agreement. Over five years, the Democratic alternative provided $16.8 billion more than the conference agreement. The conference agreement cuts this function by as much as one-third by 2005. (See Function 450, *Community and Regional Development*.)

- ***Transportation Programs —*** Over 2001-2005, the Democratic alternative provided $2.9 billion more than the conference agreement for transportation programs. Unlike the Republican resolutions, the Democratic alternative increased funding for highways, mass transit, and aviation programs while also preserving the purchasing power of all other transportation programs. (See *Function 400, Transportation*.)

- ***Law Enforcement —*** The Democratic alternative resolution increased purchasing power for justice programs by $425 million for each year through 2005. For 2001, the Democratic alternative provided $1.1 billion more than the conference agreement. Over five years, the Democratic alternative provided $8.3 billion more than the conference agreement. (See *Function 750, Administration of Justice*.)

- ***Veterans 'Benefits —*** Over 2001-2005, the conference agreement provides $500 million less in appropriations than the Democratic alternative. For mandatory spending, the conference agreement parallels the Democratic alternative by increasing Montgomery GI Bill education benefits. However, the conference agreement provides $700 million less over five years for this purpose than the Democratic alternative did. (See *Function 700, Veterans 'Benefits and Services*.)

- ***Military Retiree Health Benefits —*** The conference agreement provides $400 million in benefits over five years. The Democratic alternative, in contrast, provides $5.4 billion, or almost 14 times as much, over the same period to enhance the benefits of military retirees over age 65. In addition, the House Democratic alternative placed no conditions on the funding and issued a reconciliation directive to the Armed Services Committee. A reconciliation directive requires the legislation to be reported and protects it from filibusters and non-germane Senate amendments. (See *Military Retirees*.)

Highlights of the Conference Agreement versus the House-passed Resolution

- ***Revenues —*** The conference agreement on the Republican budget resolution provides for a total tax cut of $175 billion over five years (2001-2005), compared with a total tax cut of $200 billion in the House resolution. The tax cut consists of a $150 billion reconciliation directive and a $25 billion reserve fund for additional tax cuts. The House resolution also had a $150 billion reconciliation directive but had a larger reserve fund of $50 billion for additional tax cuts. Like the House resolution, the conference agreement provides that the size of the tax cut can be increased if the Congressional Budget Office increases its budget surplus projection this summer.

- ***Defense Funding —*** The conference agreement provides $310.8 billion for defense appropriations for 2001, which is $3.5 billion more than the House resolution. However, the conference agreement assumes $2.5 billion less for defense funding in the 2000 Kosovo supplemental appropriations bill. See *Function 050: National Defense* for a full discussion.

- ***Medicare Reserve Fund —*** The conference agreement does not resolve the structural differences between the House and Senate Medicare reserve funds. Instead, the conference agreement provides for separate reserve funds for the House and Senate. The House reserve fund follows the House resolution by providing $40 billion over five years (2001-2005) for an undefined prescription drug benefit and unspecified Medicare reform legislation.

- ***Appropriations Firewall for Defense and Non-Defense Programs —*** Upon enactment of legislation increasing the 2001 cap on appropriations, the conference agreement creates a firewall between defense and non-defense appropriated programs for 2001. The firewall applies only to the Senate and is enforced by a Senate point of order that can only be waived by 60 votes. However, this firewall and the point of order apply to the conference reports on appropriations bills as well as to the Senate version of them. The House resolution did not contain any firewalls.

- ***Education, Training, Employment, and Social Services —*** The conference agreement is equal to the House resolution in budget authority for 2001 but $600 million below the House resolution in outlays. Over five years (2001-2005), it provides $1.5 billion more in budget authority than the House resolution.

- ***Military Retirees*** — Unlike the House resolution, the conference agreement provides a modest reserve fund to be used to fund legislation that improves health care for military retirees. The reserve fund is $50 million for 2001, and totals $400 million over 2001-2005, all of which is mandatory funding. However, this level is $5.0 billion less than the

Democratic alternative resolution. See *Military Retirees* for a detailed discussion of this issue.

- ***Agriculture* —** Over five years (2001-2005), the conference agreement increases mandatory spending for agriculture by $1.6 billion more than the House resolution.

- ***Reconciliation Dates for Tax Cuts and Debt Reduction* —** The conference agreement instructs the Ways and Means Committee to report two bills cutting taxes. The first must be reported to the House by July 14 and the second bill by September 13. The House resolution included four dates (May 26, June 23, July 28, and September 22) as the deadlines for reporting tax cut measures to the House.

  The conference agreement also instructs the Ways and Means committee to report two bills reducing debt held by the public. These bills must be reported to the House by July 14 and September 13. While these reporting dates coincide with the deadlines for the tax cut bills, they are to be reported as separate freestanding bills. The House resolution included two dates (May 26 and September 22) as the deadlines for reporting these measures to the House. It is not clear how Congress can legislate a reduction in debt held by the public; this directive is likely to be symbolic only. Each year, if federal receipts are greater than federal spending, the publicly held debt decreases automatically.

Appropriated Programs

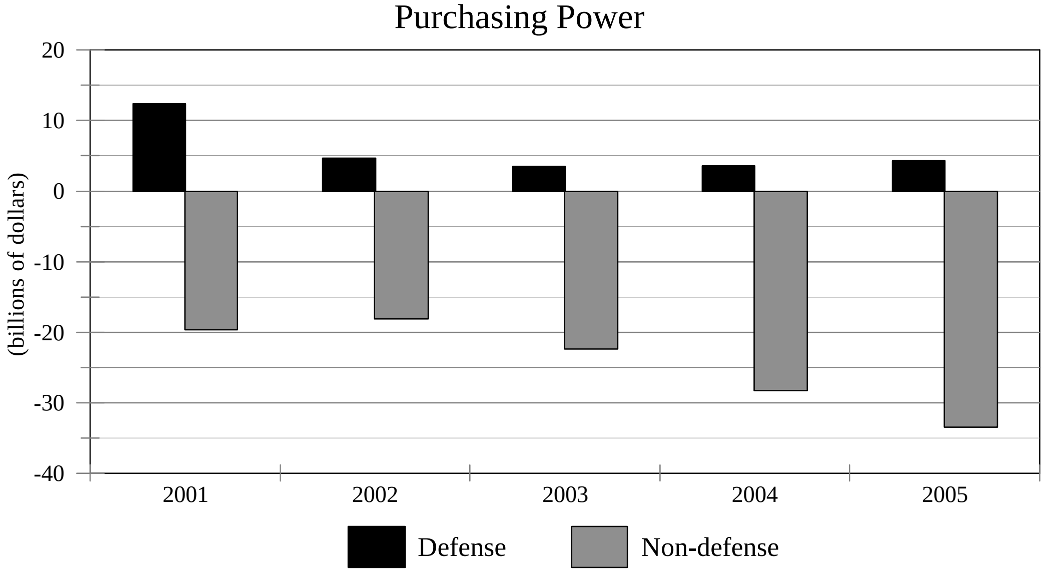
Appropriated programs, also known as "discretionary" programs, are those controlled by the annual appropriations process. The conference agreement on the Republican budget resolution requires unrealistic cuts in non-defense appropriations — cuts that Republican Congresses have been unable or unwilling to make in the past — in order to provide $175 billion in tax cuts over the next five years. If Congress provides these tax cuts but cannot make these cuts to domestic programs, the Republicans will spend the Social Security surplus and will reduce publicly held debt much less than the alternative budget offered by House Democrats. Reducing debt helps ensure that the government has the resources needed to fund Social Security and Medicare when the Baby Boom generation retires. In short, premising large tax cuts on unrealistic spending cuts makes the conference agreement a fiscally unsound and risky budget blueprint.

Deep Cuts to Non-Defense Appropriations

The conference agreement provides for slightly more than zero real growth for defense, which increases by 1.3 percent in real (inflation-adjusted) terms by 2005 (see *Function 050: National Defense* for further discussion). In contrast, as the table on the next page indicates, the conference agreement makes deep cuts in non-defense appropriations, which decrease by 9.8 percent in real terms by 2005. The graph below shows how much the conference agreement cuts non-defense programs from the level needed to maintain constant purchasing power for 2001 through 2005, and contrasts these cuts with the increases for defense.

2001 Republican Budget:

Non-defense Cuts and Defense Increases from Constant Purchasing Power



Non-defense Discretionary Comparison:
Conference Agreement on Republican Budget Resolution
Loss or Gain in Real Purchasing Power

	Conference Agreement Republican Budget Resolution (In Billions of Dollars)		Percent Above (+)/Below (-) Current Services	
	2001	2005	Percent 2001	Percent 2005
150 International Affairs				
Budget authority	20.0	20.4	-12%	-17%
Outlays	22.3	19.7	2%	-17%
250 General Science, Space				
Budget authority	20.2	21.0	3%	-0%
Outlays	19.4	20.4	1%	-1%
270 Energy				
Budget authority	3.0	2.7	-2%	-14%
Outlays	3.0	2.7	-2%	-14%
300 Natural Resources and Environment				
Budget authority	24.2	24.4	-2%	-11%
Outlays	24.1	24.2	-1%	-10%
350 Agriculture				
Budget authority	4.5	4.6	-2%	-9%
Outlays	4.5	4.5	-1%	-10%
370 Commerce and Housing Credit				
Budget authority	2.6	3.0	-68%	-67%
Outlays	3.0	2.9	-62%	-67%
400 Transportation				
Budget authority	15.8	17.0	6%	2%
Outlays	48.5	54.0	2%	1%
450 Community and Regional Development				
Budget authority	9.2	8.6	-21%	-31%
Outlays	11.4	8.7	-3%	-29%
500 Education and Training				
Budget authority	56.8	60.8	3%	2%
Outlays	52.3	59.0	-1%	0%
550 Health				
Budget authority	34.8	36.9	1%	-1%
Outlays	32.8	35.7	-4%	-2%
570 Medicare				
Budget authority	3.1	3.1	-2%	-15%
Outlays	3.1	3.1	-2%	-14%
600 Income Security				
Budget authority	35.3	39.6	-14%	-17%
Outlays	42.1	44.1	-1%	-8%
650 Social Security				
Budget authority	3.4	3.6	3%	-3%
Outlays	3.3	3.6	1%	-2%
700 Veterans				
Budget authority	22.1	24.1	2%	-1%
Outlays	21.9	23.9	2%	-1%
750 Administration of Justice				
Budget authority	26.9	28.9	-2%	-6%
Outlays	27.2	28.7	-2%	-6%
800 General Government				
Budget authority	12.8	12.4	-2%	-16%
Outlays	13.0	12.4	-3%	-14%

Firewalls Resurrected

The conference agreement also reestablishes "firewalls" between defense and non-defense appropriations for 2001. A "firewall" is a separate set of limits on defense and non-defense appropriations so that Congress cannot cut one account to offset an increase to the other account. The firewall is enforced by a Senate point of order applicable to any appropriations bill that breaks the firewall. This firewall reduces the flexibility of the Appropriations Committees to enact realistic levels of appropriations, especially for non-defense programs, because of the deep non-defense cuts assumed in the conference agreement.

The Supplemental Illustrates the Implausibility of the Republican Budget

Five days after the House first passed the budget resolution, it passed a 2000 supplemental appropriations bill that broke the spending levels set in the budget resolution by $4.1 billion. The supplemental appropriations bill, which totaled $12.6 billion, was triple the President's supplemental request.

A major reason this supplemental was so large was that it sought to circumvent the House resolution's limits on 2001 appropriations by paying for some 2001 items, both defense and non-defense, with 2000 funding. This use of the supplemental indicates that the Appropriations Committee will indeed have trouble living within the constraints of the conference agreement on the budget resolution, since the conference agreement requires cuts in non-defense appropriations for 2001 and assumes even deeper cuts in later years.

The final budget resolution provides $175 billion in tax cuts over five years based on the assumption that it can cut the constant purchasing power of non-defense appropriations by $121.5 billion in budget authority and $101.6 billion in outlays over five years. But if congressional Republicans enact the tax cuts and fail to cut non-defense programs by these large amounts, then the Republicans will be forced to spend the Social Security surplus to cover the cost of appropriations. The supplemental is early, tangible proof that the Republicans will exceed the appropriation levels in the budget conference agreement.

The conference agreement on the Republican budget resolution effectively reduced the supplemental to $5.1 billion, which is $650 million (15 percent) more than the President's request. To accommodate the supplemental, the conference agreement increased the defense level for 2001 (see *Function 050: National Defense* for further discussion), but not the non-defense level. Whether the final supplemental bills will exceed the levels in the conference agreement remains to be seen.

Examples of What These Cuts Will Mean

As in 1998 and 1999, the Congress is unlikely to make the cuts required by the conference agreement. However, it is worth taking the conference agreement at face value and considering the impact of the cuts if they are actually enacted. They will wreak havoc on many programs, including the following examples:

- Providing Pell Grants to 316,000 fewer low-income students by 2005;
- Eliminating Head Start services for more than 40,000 children by 2005;
- Cutting funds to clean up 40 Superfund sites by 2005;
- Cutting 600 FBI agents and 500 Drug Enforcement Administration agents by 2005;
- Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by almost one-third by 2005, even though Congress has historically rejected significant cuts to these programs; and
- Cutting energy research by 29 percent by 2002 even though the recent rise in oil and gasoline prices underscores the need to develop alternative energy sources.

Masking the Cuts

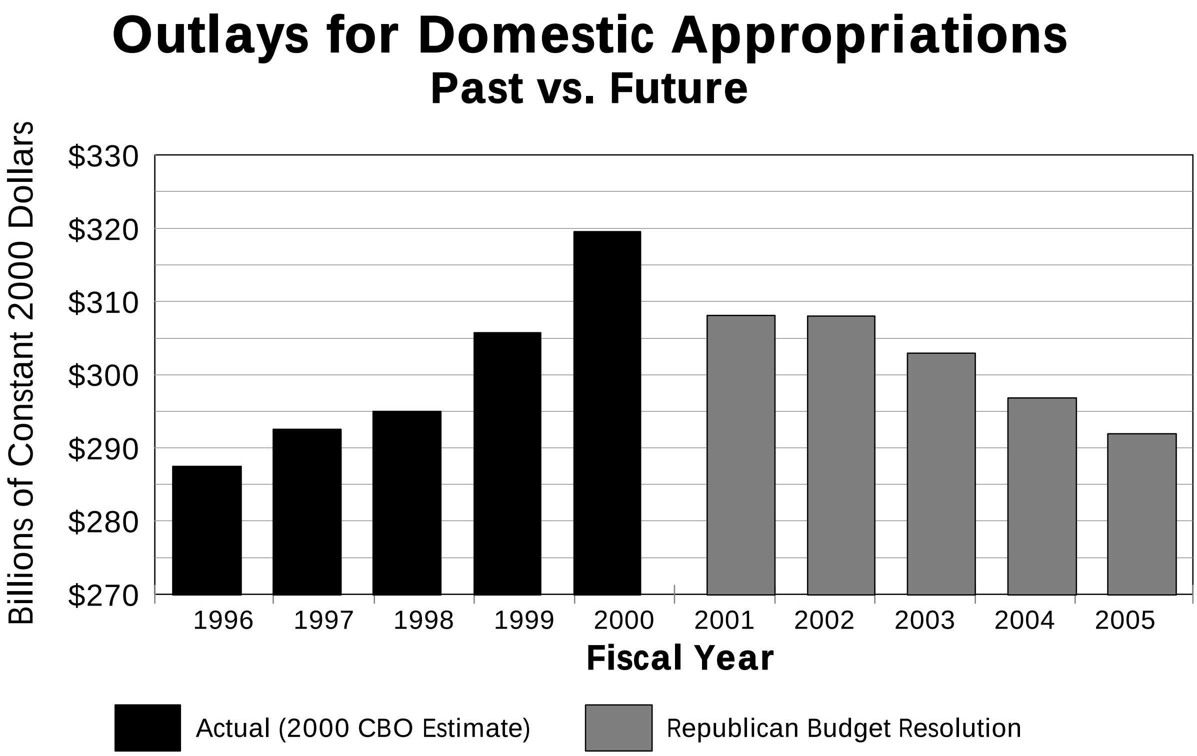
The conference agreement attempts to mask its large cuts to non-defense appropriations in several ways. First, the conference agreement contains unspecified cuts totaling $22.2 billion over the 2001-2005 period in Function 920, an obscure "catch-all" function that the Republicans have used in the past to assume cuts without having to specify where the cuts fall. Thus, non-defense programs are likely to be cut an average of almost $4.5 billion per year more than the individual functions indicate.

Second, as the "Non-defense Discretionary Comparison" table on page 40 indicates, the conference agreement targets several less politically popular functions, such as International Affairs, Energy, Community and Regional Development, and General Government, for disproportionately large cuts in order to spare politically popular functions from severe cuts. However, to the extent that Congress does not make the disproportionate cuts to the less politically popular functions, the popular functions that appear to be "spared" will not be.

Third, some Members may claim that since the conference agreement keeps many non-defense programs slightly above a 2000 freeze level over five years, it does not cut non-defense appropriations. This is a specious argument. First, non-defense funding is below the freeze level in 2001. Second, a freeze level by definition cuts the purchasing power of programs, and these cuts compound over time. The truth is that the conference agreement cuts the purchasing power (as measured by outlays) of most non-defense appropriation functions by 9.8 percent in 2005. This translates into a $121.5 billion cut in real purchasing power over five years in non-defense appropriations.

History Underscores the Implausibility of the Republican Budget

As the graph below illustrates, non-defense programs have increased faster than inflation every year over the last five years (1996-2000), but the conference agreement assumes an about-face by cutting these same programs deeply over the next five years. It assumes these unrealistic cuts in order to accommodate large tax cuts. If the tax cuts are enacted but these unrealistic cuts are not realized, on-budget deficits will resurface and Congress will tap into the Social Security surplus.
Here are some facts to bear in mind when evaluating the plausibility of the funding levels in the conference agreement for non-defense appropriations:



— As the graph above illustrates, from 1996 through 2000, the Republican Congress has increased non-defense spending by an average annual rate of 2.5 percent in real terms. (Note: This is the same annual average rate of increase as the Democratic Congresses in the 1990-1994 period.)

— The annual real (inflation-adjusted) rate of growth for non-defense appropriations since 1962 has been 2.8 percent. This positive rate of real growth occurred despite annual budget deficits during most of this period.

— Since 1987, there has been only one year, 1996, in which non-defense outlays did not record a real increase.

— The House-passed versions of the 2000 appropriations bills exceeded the 2000 budget resolution by $30.7 billion even before these bills reached the President's desk. This refutes the claim of some Members that the appropriations bills have only increased under a Republican Congress because of a Democratic President.

Discretionary Spending As a Percentage of Gross Domestic Product (GDP)

According to the non-partisan budget watchdog group, the Concord Coalition, "as a share of GDP, non-defense discretionary spending is now at its lowest level since LBJ announced his 'Great Society' program in 1965." Under the conference agreement, non-defense discretionary spending as a percentage of GDP drops from 3.3 percent in 2000 to 2.8 percent in 2005. Historical records of government spending do not exist in sufficient detail to indicate the last time non-defense appropriations comprised such a low percentage of GDP.

History teaches us that Republican Congresses have been unwilling to hold non-defense spending to zero real growth. In fact, as the graph indicates, the rate of growth of non-defense appropriations is accelerating, not declining, under Republican Congresses.

Conference Agreement Ignores the Caps on Appropriations

The 1990 bipartisan Budget Enforcement Act imposed statutory dollar limits or "caps" on budget authority and outlays for appropriations for the years 1991 to 1995. It created a "sequestration" mechanism to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determined that Congress had breached the caps. The discretionary caps were extended through 1998 when President Clinton's first budget was enacted in 1993, and the Balanced Budget Act of 1997 (BBA) revised and extended these caps through 2002. The discretionary caps, in conjunction with the "pay as you go" (PAYGO) rules for mandatory programs, were the primary tools of fiscal discipline that led the federal budget from chronic deficits to the current forecast of ongoing surpluses.

This year, both Republicans and Democrats agree that the existing caps are unrealistic. The President's 2001 budget proposes a new set of caps through 2010 that approximates what is necessary to keep appropriations at a zero real growth level (the level needed to preserve purchasing power by staying even with inflation). While there is not a bipartisan agreement on an appropriate level of appropriations, it is noteworthy that the Republican conference agreement on the budget resolution breaks the existing caps yet fails to call for new and extended caps. This omission suggests that the Republicans themselves may not consider their appropriations cuts to be realistic.

Under Senate rules, budget resolutions and appropriations bills which exceed the annual caps on appropriations are subject to a point of order on the Senate floor. Senate rules require 60 votes to waive a point of order. This point of order creates a procedural hurdle for Congressional Republicans because they plan to allocate $600.3 billion for appropriations for 2001, a sum that exceeds the 2001 funding cap by $59.2 billion.

To avoid the Senate point of order while portraying the budget resolution at the $600.3 billion level, the conference agreement includes $64.7 billion of unspecified cuts in Function 920. Republicans do not intend to impose cuts of this magnitude.[9] Instead, the cuts are included to permit Republicans to avoid the point of order by claiming they are in technical compliance with the caps while taking credit for funding above the caps. Since the caps are set in law, it will take a bill passed by Congress and signed by the President to increase or waive the caps. Sometime during the appropriations process this year, Republicans are likely to include a provision in a bill they send the President which will raise or waive the 2001 spending caps.

Summary of Republican Appropriations: Unrealistic and Unsound

Last year's Republican budget plan proved unworkable when Congress could not cut non-defense programs nearly as much as the plan assumed. Just as it did last year, this conference agreement sets unrealistically low levels for non-defense appropriations and, just as it was last year, this conference agreement is thus fiscally unsound.

[9] The conference agreement includes $5.5 billion in unspecified cuts it does intend to make, and $59.2 billion in cuts it does not intend to make.

The Budget By Function

The following three tables show the appropriated (discretionary) funding in the conference agreement on the Republican budget resolution broken down by function.

The first table shows the conference agreement's discretionary totals for each function. These levels do not include a cut of $59.2 billion in budget authority that would be needed to comply with the current caps on appropriations that were set by the Balanced Budget Act of 1997. See *Appropriated Programs* for more discussion.

The second table compares the discretionary levels in the conference agreement with those in the House Republican budget resolution. The Function 920 comparison is difficult to interpret because the House resolution reflected the 2000 supplemental appropriations bill in Function 920, but the conference agreement assumes a lower level for the supplemental appropriations bill and does not display it in Function 920. Rather, the conference agreement shows the supplemental funding where it is expected to occur, e.g. defense, international affairs, etc. The conference agreement includes a total of $22.2 billion of unspecified cuts in Function 920, which is $3.7 billion more than the House resolution included. See *Function 920: Allowances* for more discussion.

The final table compares the discretionary levels in the conference agreement with the levels needed to maintain purchasing power (the current services baseline) at the 2000 level. The only four functions that arguably maintain their purchasing power over five years (2001-2005) are defense, science, transportation, and education. However, there are two reasons to think that the full increases in science, transportation, and education cannot occur (assuming, for the moment, that the conference agreement is actually enforced). The first is that some of the "unspecified" cuts in Function 920 might end up falling in these three functions — they will have to fall somewhere. The second is that, in the science and education functions, the conference agreement provides very little outlay increase to go with the budget authority increase. But all budget authority that is actually appropriated ultimately is spent, i.e., is recorded as outlays. Over time, the only way to live within the conference agreement's outlay levels for science and for education is to appropriate lower levels of budget authority.

Detailed descriptions of each function follow the tables.

DISCRETIONARY TOTALS
CONFERENCE AGREEMENT ON REPUBLICAN BUDGET RESOLUTON
(In billions of dollars)

	2001	2002	2003	2004	2005	5 Yr. Total
Total Discretionary						
Budget Authority	600.3	608.6	619.1	629.0	640.2	3097.2
Outlays	625.2	640.8	650.5	658.4	670.3	3245.2
Non-defense discretionary						
Budget Authority	289.4	298.5	302.7	304.9	307.8	1503.3
Outlays	327.5	336.7	339.9	339.8	341.4	1685.3
050 *National Defense*						
Budget authority	310.8	310.1	316.4	324.1	332.4	1593.8
Outlays	297.7	304.1	310.6	318.6	328.9	1559.9
150 International Affairs						
Budget authority	20.0	20.1	20.1	20.1	20.4	100.7
Outlays	22.3	21.6	20.6	20.0	19.7	104.2
250 General Science, Space						
Budget authority	20.2	20.4	20.6	20.8	21.0	103.0
Outlays	19.4	19.9	20.0	20.2	20.4	99.9
270 Energy						
Budget authority	3.0	2.1	2.7	2.6	2.7	13.1
Outlays	3.0	2.2	2.8	2.7	2.7	13.4
300 Natural Resources and Environment						
Budget authority	24.2	24.2	24.3	24.3	24.4	121.4
Outlays	24.1	24.3	24.4	24.3	24.2	121.3
350 Agriculture						
Budget authority	4.5	4.5	4.6	4.6	4.6	22.8
Outlays	4.5	4.4	4.5	4.5	4.5	22.4
370 Commerce and Housing Credit						
Budget authority	2.6	3.1	3.1	3.0	3.0	14.8
Outlays	3.0	3.0	3.0	2.9	2.9	14.8
400 Transportation						
Budget authority	15.8	16.4	17.0	17.0	17.0	83.2
Outlays	48.5	51.3	53.2	53.7	54.0	260.7
450 Community and Regional Development						
Budget authority	9.2	8.7	8.6	8.6	8.6	43.7
Outlays	11.4	10.5	9.6	9.1	8.7	49.3
500 Education and Training						
Budget authority	56.8	58.4	59.1	60.0	60.8	295.1
Outlays	52.3	55.9	57.9	58.6	59.0	283.7
550 Health						
Budget authority	34.8	35.2	35.7	36.3	36.9	178.9
Outlays	32.8	33.8	34.6	35.2	35.7	172.1
570 Medicare						
Budget authority	3.1	3.1	3.1	3.1	3.1	15.5
Outlays	3.1	3.1	3.1	3.1	3.1	15.5
600 Income Security						
Budget authority	35.3	38.2	38.8	39.2	39.6	191.1
Outlays	42.1	42.7	43.6	43.8	44.1	216.3
650 Social Security						
Budget authority	3.4	3.4	3.5	3.6	3.6	17.5
Outlays	3.3	3.4	3.4	3.5	3.6	17.2
700 Veterans						
Budget authority	22.1	22.5	23.2	23.6	24.1	115.5
Outlays	21.9	22.5	23.0	23.4	23.9	114.7
750 Administration of Justice						
Budget authority	26.9	27.5	27.9	28.4	28.9	139.6
Outlays	27.2	27.5	27.8	28.2	28.7	139.4
800 General Government						
Budget authority	12.8	12.4	12.4	12.4	12.4	62.4
Outlays	13.0	12.7	12.6	12.5	12.4	63.2
920 Allowances						
Budget authority	-5.5	-1.7	-2.0	-2.7	-3.3	-15.2
Outlays	-4.6	-2.1	-4.2	-5.9	-6.2	-23.0
950 Undistributed Offsetting Receipts						
Budget authority	0.2	0.0	0.0	0.0	0.0	0.2
Outlays	0.2	0.0	0.0	0.0	0.0	0.2

Note: Numbers may not add exactly due to rounding.

HBC Democratic Staff

DISCRETIONARY COMPARISON
The Conference Agreement on the Republican Budget Resolution
Above(+)/Below(-) House Republican Budget Resolution
(In billions of dollars)

	2001	2002	2003	2004	2005	5 Yr. Total
Total Discretionary						
Budget Authority	3.7	1.3	3.5	5.4	5.8	19.7
Outlays	3.1	1.6	2.6	4.0	4.7	16.0
Non-defense discretionary						
Budget Authority	0.2	1.4	3.6	5.5	5.9	16.6
Outlays	4.0	0.4	2.3	3.8	4.7	15.2
050 National Defense						
Budget authority	3.5	-0.1	-0.1	-0.1	-0.1	3.1
Outlays	-0.9	1.2	0.3	0.2	0.0	0.8
150 International Affairs						
Budget authority	0.3	0.8	1.3	1.8	2.1	6.3
Outlays	1.0	0.6	0.8	1.3	1.5	5.2
250 General Science, Space						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.1	0.0	0.1	-0.0	-0.1	0.1
270 Energy						
Budget authority	0.2	-0.5	0.3	0.4	0.5	0.9
Outlays	0.2	-0.5	0.3	0.4	0.4	0.8
300 Natural Resources and Environment						
Budget authority	-0.1	-0.2	-0.2	-0.3	-0.3	-1.1
Outlays	0.0	-0.1	-0.1	-0.2	-0.3	-0.7
350 Agriculture						
Budget authority	0.0	0.0	0.1	0.1	0.1	0.3
Outlays	0.1	0.0	0.1	0.1	0.1	0.4
370 Commerce and Housing Credit						
Budget authority	-0.1	0.0	0.0	-0.1	0.0	-0.2
Outlays	-0.2	0.0	0.0	-0.2	-0.1	-0.5
400 Transportation						
Budget authority	0.1	0.1	0.2	0.2	0.2	0.8
Outlays	0.3	0.5	0.3	0.5	0.7	2.3
450 Community and Regional Development						
Budget authority	0.1	0.2	0.1	0.1	0.1	0.6
Outlays	-0.3	0.2	0.1	0.1	0.2	0.3
500 Education and Training						
Budget authority	0.0	0.7	0.4	0.3	0.1	1.5
Outlays	-0.6	0.1	0.7	1.1	1.3	2.6
550 Health						
Budget authority	-0.1	-0.3	-0.3	-0.2	-0.1	-1.0
Outlays	-1.1	0.0	-0.1	0.0	0.0	-1.2
570 Medicare						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0
600 Income Security						
Budget authority	0.1	-0.1	0.3	0.6	0.8	1.7
Outlays	0.2	0.5	1.4	1.5	1.6	5.2
650 Social Security						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0
700 Veterans						
Budget authority	-0.1	-0.1	0.2	0.2	0.3	0.5
Outlays	-0.1	-0.1	0.1	0.2	0.3	0.4
750 Administration of Justice						
Budget authority	0.0	0.4	0.6	0.8	1.0	2.8
Outlays	0.1	0.3	0.6	0.8	1.0	2.8
800 General Government						
Budget authority	0.4	0.0	0.0	0.0	0.0	0.4
Outlays	0.0	0.0	0.0	0.1	0.0	0.1
920 Allowances						
Budget authority	-0.8	0.4	0.6	1.6	1.1	2.9
Outlays	4.1	-1.1	-2.0	-1.9	-1.9	-2.8
950 Undistributed Offsetting Receipts						
Budget authority	0.2	0.0	0.0	0.0	0.0	0.2
Outlays	0.2	0.0	0.0	0.0	0.0	0.2

HBC Democratic Staff

DISCRETIONARY COMPARISON
The Conference Agreement on the Republican Budget Resolution
Above(+)/Below(-) Current Services Baseline
(In billions of dollars)

	2001	2002	2003	2004	2005	5 Yr. Total
Total Discretionary						
Budget Authority	-7.0	-13.4	-18.7	-24.6	-29.2	-93.0
Outlays	-10.3	-9.6	-16.4	-23.2	-29.8	-89.2
Non-defense discretionary						
Budget Authority	-19.5	-18.1	-22.2	-28.2	-33.5	-121.5
Outlays	-12.1	-12.6	-18.6	-26.0	-32.3	-101.6
050 National Defense						
Budget authority	12.4	4.7	3.5	3.6	4.3	28.5
Outlays	1.9	3.0	2.2	2.8	2.5	12.4
150 International Affairs						
Budget authority	-2.7	-3.0	-3.4	-3.9	-4.0	-17.0
Outlays	0.4	-0.9	-2.5	-3.5	-4.0	-10.5
250 General Science, Space						
Budget authority	0.6	0.5	0.3	0.1	-0.1	1.4
Outlays	0.2	0.3	0.1	-0.1	-0.3	0.1
270 Energy						
Budget authority	-0.1	-0.9	-0.3	-0.5	-0.4	-2.2
Outlays	-0.1	-0.8	-0.2	-0.4	-0.4	-2.0
300 Natural Resources and Environment						
Budget authority	-0.6	-1.2	-1.7	-2.4	-2.9	-8.8
Outlays	-0.3	-0.9	-1.4	-2.0	-2.6	-7.2
350 Agriculture						
Budget authority	-0.1	-0.2	-0.2	-0.3	-0.5	-1.3
Outlays	-0.0	-0.2	-0.2	-0.4	-0.5	-1.4
370 Commerce and Housing Credit						
Budget authority	-5.5	-5.2	-5.4	-5.8	-6.0	-27.9
Outlays	-5.0	-5.1	-5.3	-5.7	-5.9	-27.0
400 Transportation						
Budget authority	0.9	1.1	1.2	0.8	0.3	4.3
Outlays	1.0	1.6	1.6	1.0	0.4	5.7
450 Community and Regional Development						
Budget authority	-2.5	-3.2	-3.5	-3.7	-3.9	-16.8
Outlays	-0.4	-1.4	-2.3	-2.9	-3.5	-10.5
500 Education and Training						
Budget authority	1.4	2.1	1.8	1.6	1.4	8.3
Outlays	-0.6	0.6	0.9	0.7	0.0	1.5
550 Health						
Budget authority	0.3	0.0	-0.2	-0.3	-0.4	-0.6
Outlays	-1.2	-0.3	-0.3	-0.4	-0.6	-2.7
570 Medicare						
Budget authority	-0.1	-0.2	-0.3	-0.4	-0.5	-1.5
Outlays	-0.1	-0.1	-0.3	-0.4	-0.5	-1.4
600 Income Security						
Budget authority	-5.6	-4.5	-5.9	-7.2	-8.3	-31.5
Outlays	-0.3	-1.7	-1.9	-2.8	-3.9	-10.6
650 Social Security						
Budget authority	0.1	-0.0	-0.0	-0.0	-0.1	-0.0
Outlays	0.0	0.0	-0.1	-0.1	-0.1	-0.1
700 Veterans						
Budget authority	0.4	0.1	0.2	-0.1	-0.4	0.2
Outlays	0.4	0.2	-0.1	-0.2	-0.3	-0.0
750 Administration of Justice						
Budget authority	-0.7	-0.8	-1.2	-1.5	-1.9	-6.1
Outlays	-0.5	-0.9	-1.2	-1.5	-1.8	-5.9
800 General Government						
Budget authority	-0.3	-1.1	-1.5	-1.9	-2.3	-7.0
Outlays	-0.4	-0.8	-1.2	-1.6	-2.0	-6.1
920 Allowances						
Budget authority	-5.5	-1.7	-2.0	-2.7	-3.3	-15.2
Outlays	-5.4	-2.1	-4.2	-5.9	-6.2	-23.8
950 Undistributed Offsetting Receipts						
Budget authority	0.2	0.0	0.0	0.0	0.0	0.2
Outlays	0.2	0.0	0.0	0.0	0.0	0.2

HBC Democratic Staff

Function 050: National Defense

The National Defense function includes funding for the Department of Defense (DOD), the nuclear weapons-related activities of the Department of Energy, and national defense activities in various other agencies such as the Coast Guard and the Federal Bureau of Investigation. The DOD represents about 95 percent of this function.

- ***Overview*** — For 2001, the conference agreement on the Republican budget resolution provides $310.8 billion for national defense appropriations. This level of funding is a $12.4 billion (4.2 percent) increase in purchasing power, and is $4.5 billion more than the President's request. Over the 2001-2005 period, the conference agreement is $28.5 billion more than what is needed to maintain zero real growth (constant purchasing power), and $5.2 billion more than the President's request for that period.

- ***Comparison to the House Resolution*** — The conference agreement provides $3.5 billion more than the House resolution for 2001 defense funding. The purpose of the increase above the House resolution is apparently to provide part of the funding in the House-passed 2000 Kosovo supplemental appropriations bill, which the Senate refused to consider. The House-passed supplemental bill would have provided $9.2 billion for defense for 2000, $4.0 billion of which was added on the House floor by a bipartisan amendment offered by Reps. Lewis, Murtha, Spence, and Skelton. The conference agreement provides $2.7 billion for defense funding in the 2000 Kosovo supplemental appropriations bill.

- ***Military Retirees*** — The conference agreement provides a reserve fund to be used to fund legislation that improves health care for military retirees. The reserve fund is $50 million for 2001 and totals $400 million over 2001-2005, all of which is mandatory funding. This level is $5.0 billion less than the Democratic alternative resolution. See *Military Retirees* for a detailed discussion of this issue.

- ***A De Facto Bipartisan Agreement on Defense*** **—** Despite the rhetoric from some Members about the inadequacy of the President's defense budget, the House-passed resolution is just three-tenths of one percent ($5.2 billion) more than the President's budget for national defense appropriations over the 2001-2005 period. The striking similarity of the President's budget to the House-passed resolution is noteworthy in light of the widely reported requests of the Service Chiefs for at least $15 billion in additional funding for DOD for 2001 alone. The emphatic rejection of the Service Chiefs' requests in the House-passed resolution and the convergence to the level in the President's budget indicates a *de facto* bipartisan agreement on overall defense funding levels.

- ***Repeal of Obligation Delays and Pay Date Delays*** — The conference agreement assumes enactment of legislation repealing several timing shifts included in the 2000 Omnibus Appropriations bill. These changes, contained in the 2000 Kosovo supplemental appropriations bill approved by the House on March 30, 2000, would repeal the delay in pay dates for military personnel and DOD civilians and obligation delays for payments to defense contractors. The effect of repealing these provisions will shift a total of $4.8 billion in outlays from 2001 back to 2000.

Function 150: International Affairs

The International Affairs function covers a wide range of programs and activities, including operation of U.S. embassies and consulates throughout the world, military assistance to allies, aid to developing nations, economic assistance to fledgling democracies, promotion of U.S. exports abroad, U.S. payments to international organizations, and peacekeeping efforts. This function has represented about one percent of all federal outlays since 1992.

- ***Comparisons with House and Senate Resolutions* —** The conference agreement on the Republican budget resolution provides $20.0 billion for international affairs appropriations for 2001. This level is $300 million more than the House resolution, but $400 million less than the Senate resolution. The conference agreement assumes no policy changes that will affect mandatory spending or offsetting receipts within the international affairs function.

- ***Unrealistic Funding Levels* —** This level of funding for 2001 is a $2.7 billion (12 percent) cut in purchasing power below the 2000 funding level. By 2005, the level in the conference agreement represents a 17 percent cut in purchasing power. As discussed in *Appropriated Programs*, the Republican plan disproportionately cuts funding for international affairs appropriations (without specifying programs to be cut) in an attempt to mask its unrealistic cuts to overall non-defense appropriations. Thus, the international affairs function is emblematic of the unwise and politically implausible assumptions upon which the conference agreement rests. For example, if the conference agreement is taken at face value, it could:

  - Cut resources needed to fund anti-narcotics efforts throughout the world, including anti-heroin efforts in Asia and anti-cocaine efforts in Latin America;
  - Slow down efforts to improve U.S. embassy security, a widely-recognized priority since the devastating terrorist attacks against U.S. embassies in Kenya and Tanzania in August 1998;
  - Further reduce U.S. humanitarian and economic development assistance, despite the fact that the U.S. already ranks 21st in the world in terms of foreign aid as a percent of gross national product (GNP);[10]
  - Reduce modest but critical assistance to countries struggling to become free-market democracies in Eastern Europe and the former Soviet Union;

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[10]Data is from the Organization for Economic Cooperation and Development's 1999 Development Cooperation Report, February, 2000. The OECD measurement is based on its definition of "official development assistance," consisting of grants or concessional loans to developing countries to promote economic development. Military assistance is not considered official development assistance. U.S. economic assistance to Israel is excluded because Israel is not considered a developing county by the OECD. The U.S. level is one-tenth of one percent of GNP, which is a quarter of the average percentage among developed countries. Countries that provide more foreign aid as a percent of GNP than the U.S. include Japan, Australia, France, Ireland, Italy, Luxembourg, New Zealand, Portugal, and Spain. In total amount of foreign aid, the U.S. ranks second, $1.9 billion behind Japan.

- Call into question current U.S. assistance to the Middle East, which is vital to maintaining stability in a region critical to U.S. economic and national security interests, as well as raise doubts about whether the U.S. will provide the resources necessary to facilitate future peace agreements between Israel, the Palestinian authority, and Syria; and
- Cut staffing at embassies and consulates throughout the world, or shut some down completely, hurting the interests of American businesses and tourists.

- ***Excluding One-Time Costs* —** Some Republicans may claim that this function can be cut below 2000 levels because the 2000 level includes one-time costs for the Wye River Middle East Peace Agreement and repayment of U.S. back dues (arrears) to the United Nations. This reasoning is flawed. First, even excluding the Wye River and U.N. arrears funding, the Republican plan cuts the purchasing power for U.S. international programs by $477 million (2.3 percent) for 2001 and by $1.8 billion (8.2 percent) for 2005. Second, 2000 funding levels for other priorities that enjoy strong bipartisan support, such as more aggressive efforts to curb narcotics trafficking and increasing security at U.S. embassies, are considered inadequate by many Members on both sides of the aisle. Any increased funding Congress provides for 2001 for these priorities offsets the "savings" of excluding 2000 one-time costs.

  In short, any argument over the merits of including Wye River and U.N. arrears in a comparison of funding cannot change the bottom line: the conference agreement sharply cuts funding for U.S. international and diplomatic programs.

- ***Undercutting U.S. Foreign Policy* —** The Chairman of the House International Relations Committee, Rep. Ben Gilman, wrote Chairman Kasich prior to mark-up of the Republican plan requesting the same level of funding for 2001 as the President requested (which was slightly more than what is needed to maintain constant purchasing power). Chairman Gilman thought this level would be appropriate because:

  > "Most of the programs under our jurisdiction are uniquely the responsibility of the federal government and are strongly related to protecting the national security."

  The conference agreement instead cuts the President's request by 12.3 percent, raising serious questions about the ability to promote U.S. national security through diplomacy. The Republican plan is simply unrealistic in the funding it provides for international programs.

Function 250: General Science, Space, and Technology

This function includes the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and general science programs within the Department of Energy (DOE).

For 2001, the conference agreement on the Republican budget resolution provides $20.2 billion in appropriated funding for science programs, which includes $100 million that Democrats, led by Congressman Rush Holt (D-NJ), added during the House Budget Committee's consideration of the budget. This level of funding is a $600 million increase in purchasing power for 2001, but that increase is not maintained over time. By 2004, the outlays in the conference agreement represent a cut in purchasing power and by 2005, both budget authority and outlays are below the level required to maintain purchasing power at 2000 levels.

- ***Comparison with House and Senate Resolutions —*** For Function 250, the conference agreement is the same as the House resolution and $0.6 billion above the Senate resolution over five years (2001-2005).

- ***Democrats Increase Funding for NSF —*** The 2001 total in the conference agreement is $75 million less than what Democrats, led by Congressman Holt, tried to provide during the House Budget Committee mark-up. Congressman Holt offered an amendment to increase funding for NSF by $675 million (17 percent) for 2001, and by $3.9 billion over five years (2001-2005). Republicans reduced the increase to only $100 million before accepting the scaled-back amendment.

- ***Democrats Pressured Republicans to Add Funding —*** The night before bringing the resolution to the House floor, Republicans succumbed to Democratic pressure to increase funding for science and technology by adding an additional $500 million to Function 250 for 2001 ($3.0 billion over 2001-2005). To pay for this increase, however, the Republicans imposed an additional $500 million in unspecified cuts in non-defense funding for 2001 in Function 920 (Allowances), and an additional $5.9 billion in cuts over 2001-2005. The conference agreement maintains the House level for Function 250, but for 2001 makes even larger unspecified cuts in Function 920.

Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), energy conservation, environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utilities program is part of the Department of Agriculture.

The conference agreement on the Republican budget resolution provides $3.0 billion in discretionary funding for Function 270. This represents a $100 million (2.3 percent) cut in purchasing power for 2001 and a stunning $900 million (29.2 percent) cut for 2002, and continued cuts through 2005. At a time when the nation is facing rising gasoline prices and suffering from our dependence on imported oil, the conference agreement actually decreases funding for energy research and conservation programs after 2001, cutting purchasing power for 2002 by almost one-third compared with the 2000 level.

- ***Comparison with House Resolution —*** For Function 270 appropriations, the conference agreement provides $200 million more than the House resolution for 2001, but for 2002, it provides $500 million less than the House resolution. Over five years (2001-2005), the conference agreement provides $900 million more than the House resolution.

- ***Comparison with Democratic Alternative Resolution —*** The conference agreement provides $3.7 billion (21.3 percent) less than the Democratic alternative resolution over five years (2001-2005).

- ***Energy Supply R&D —*** The conference agreement is silent about how much it cuts specific programs. However, assuming an across-the-board cut in Function 270 means that the conference agreement decreases purchasing power for applied energy R&D by $195 million for 2002.

- ***Fossil Energy R&D —*** Assuming an across-the-board cut, the conference agreement decreases purchasing power for 2002 by $127 million for programs that help industry develop ways to produce and use coal, oil, and gas resources more efficiently.

- ***Nuclear Waste Disposal —*** The Department of Energy uses nuclear waste disposal funding to help find a permanent method to dispose of its high-level radioactive waste and spent nuclear fuel. Under an across-the-board cut, the conference agreement cuts purchasing power for these programs by $72 million for 2002.

Function 300: Natural Resources and Environment

Function 300 includes programs in a variety of federal agencies concerned with the following: development and management of the nation's land, water, and mineral resources; recreation and wildlife areas; and environmental protection and enhancement. Agencies with major program activities within this function include: the Environmental Protection Agency (EPA); the Army Corps of Engineers; the National Oceanic and Atmospheric Administration; the US Forest Service; and the Department of the Interior. This function does not include the large-scale environmental clean-up programs at the Departments of Defense or Energy (see *Function 050: National Defense* and *Function 270: Energy*).

The conference agreement on the Republican budget resolution provides $24.2 billion in appropriations for natural resources and environmental programs for 2001. This funding level is $100 million above the 2000 freeze level and represents a $600 million cut in purchasing power. The conference agreement continues to cut the purchasing power of these programs in subsequent years; by 2005, the level in the conference agreement represents a $2.9 billion (10.7 percent) cut in purchasing power. Mandatory spending for 2001 is $0.9 billion, $200 million more than the spending projected under current law. Over five years, the conference agreement assumes mandatory spending of $4.7 billion, an increase of $1.3 billion over projected spending.

- ***Comparison with the House and Senate Resolutions* —** For Function 300 appropriations, the conference agreement splits the difference between the funding levels in the House and Senate resolutions. For 2001, the conference agreement provides $24.2 billion, $100 million less than House level and $100 million more than the Senate level. Over 2001-2005, the conference agreement provides $121.4 billion, $1.1 billion below the five-year House total and $1.1 billion above the Senate total.

  As described above, the conference agreement contains higher mandatory spending than that projected under current law. This increase reflects the levels in the Senate resolution; the House resolution assumed no net change from the spending under current law. According to Senate Budget Committee documents, this increase assumes the adoption of a proposal to increase payments to rural counties that currently receive a share of federal timber receipts and of another proposal to extend the recreational fee demonstration programs of the Interior Department and the Forest Service.

- ***Comparison with the Democratic Alternative* —** For 2001, the conference agreement provides $800 million less in appropriations for this function than the Democratic alternative resolution. Over 2001-2005, the conference agreement provides $9.2 billion less than the Democratic alternative. The Democratic alternative fully accommodated the President's

Lands Legacy Initiative and fenced off the funding to ensure that it went to land and water conservation programs. The Democratic alternative also provided funding for the President's Livable Communities Initiative, which helps communities grow in ways that ensure both a high quality of life and sustainable economic growth.

- ***Agreement Drops Senate's Arctic Drilling Provisions —*** Unlike the House resolution, the Senate resolution assumed $1.2 billion in additional oil receipts by 2005 from drilling in the Arctic National Wildlife Refuge (ANWR), which is not permitted under current law. The assumed receipts were shown in Function 950 (Undistributed Offsetting Receipts). Amendments to strike this assumption from the Senate resolution were unsuccessful both in committee mark-up and on the Senate floor. However, due to broad opposition, particularly from environmental groups and Congressional Democrats, the conference committee dropped the ANWR provision from the final agreement.

- ***No Room for the Lands Legacy Initiative —*** The conference agreement does not specify any assumptions regarding the President's Lands Legacy Initiative, but the funding levels leave little room for the President's proposal. For 2001, the President proposed to double the funding for certain land and water conservation programs to $1.4 billion. The lack of available funding means that the federal government passes up the opportunity to help states and localities adopt "smart growth" strategies, preserve open space, and restore urban parks. As mentioned above, the Democratic alternative fully accommodated this initiative and fenced off the funding to ensure that it went to conservation programs.

- ***Continued State and Local Assistance Placed in Jeopardy —*** For 2000, EPA is providing $2.6 billion in grants to finance wastewater and drinking water treatment plants. However, even this amount does not fully address the nationwide backlog of needed infrastructure improvements. Because the conference agreement's funding levels for environmental appropriations do not keep pace with inflation, there will be fewer real resources for communities in need.

Function 350: Agriculture

Farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA) are funded within Function 350. The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; a portion of the Public Law (P.L.) 480 international food aid program; and administrative costs. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

The conference agreement on the Republican budget resolution includes $58.8 billion in mandatory spending for agriculture over a five-year period (2001-2005), an $8.8 billion increase over current law. This level is $1.6 billion more than the amount in the House resolution and $1.3 billion less than the Senate resolution. The conference agreement includes $5.5 billion for income assistance for 2000, $500 million less than the House approved, but it also includes $1.6 billion for income assistance for 2001 that was not in the House resolution. Both the House and Senate resolutions included funds for crop insurance, which the conference agreement provided at the House-passed level ($7.2 billion).

For 2001, the conference agreement provides $4.5 billion for appropriated programs in Function 350. This level of funding represents a $100 million (1.8 percent) cut in purchasing power. The conference agreement continues to cut the purchasing power of these programs in the following four years. By 2005, the level in the conference agreement represents a $1.3 billion (9.1 percent) cut in purchasing power.

While the conference agreement makes more money available through farm programs, it also makes it harder for the money to reach farmers. Farmers gain access to federal farm programs through USDA field offices. These field offices have faced staffing shortages and funding squeezes for the past several years, forcing long lines at the counter and delays in processing checks. Field offices have fewer personnel who are burdened with ever-increasing amounts of work that much larger staff struggled to finish. The conference agreement only compounds this problem.

- ***Comparison with the House and Senate Resolutions*** — For 2001, the conference agreement is the same as the House and Senate resolutions. However, over five years, the conference agreement provides $300 million more in appropriated funds than the House resolution and $300 million less than the Senate resolution.

- ***Comparison with the Democratic Alternative Resolution*** — The Democratic alternative provided $24.3 billion over five years in appropriated funding for agriculture, $1.5 billion more than the conference agreement provides and $240 million more than the level necessary to keep pace with inflation. For 2001, the Democratic alternative outshone the conference agreement's agriculture funding by $200 million.

- ***Other Provisions*** — The conference agreement includes the Sense of the House language regarding income averaging for farmers and the Sense of the Senate language on agribusiness mergers and fair markets for farmers.

Function 370: Commerce and Housing Credit

Function 370 includes the following: deposit insurance and financial regulatory agencies; the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, business promotion programs, and technology development programs; rural housing loans; Small Business Administration business loans; the Postal Service; and other regulatory agencies such as the Federal Communications Commission.

Under the conference agreement on the Republican budget resolution, appropriated funding for Function 370 drops to $2.6 billion for 2001, a decrease of $4.3 billion from the 2000 enacted level. Although the Republican plan does not explain this sharp decrease, it most likely reflects the culmination of the 2000 census. After backing out the cost of the census, however, the 2001 funding level is still $1.3 billion (33 percent) below the level required to maintain current purchasing power. For years 2002 to 2005, the appropriated funding levels for this function represent cuts in purchasing power of at least 20 percent, not counting the reduced cost of the Census Bureau. The Republican plan makes no net changes to mandatory spending for this function.

- ***Comparison with the House Resolution —*** For 2001 appropriations, the conference agreement provides $2.6 billion, $100 million less than in the House resolution. Over 2001-2005, the conference agreement provides $14.8 billion for appropriations, $200 million less than in the House resolution. In both versions of the resolution, mandatory spending for this function is equal to projected spending under current law.

- ***Small Business Programs at Risk*** — The cuts in appropriated funding for this function could translate into a massive scale-back of the loan programs of the Small Business Administration (SBA). For example, a 33 percent cut in SBA's business loan programs would mean a decrease of $5.9 billion in the value of business loans guaranteed by the agency.

- ***Federal Housing Administration —*** Each year, the Federal Housing Administration (FHA) insures the mortgages of over 1.2 million households, about 80 percent of them first-time home buyers. While cuts to appropriated funding in this function do not directly affect the number of mortgages that FHA can insure, they do apply to FHA's operating budget. A 33 percent cut would translate to a $162 million cut in the agency's operating budget, which would seriously jeopardize the agency's ability to meet the demand for its mortgage insurance products.

- ***Rural Housing Loans —*** A 33 percent cut to the Department of Agriculture's program for rural housing loans would mean $490 million less in direct loans and $1.3 billion less in guaranteed loans. This would decrease the availability of affordable housing for low-income families in rural areas.

Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. The function also includes several small transportation-related agencies and the civilian aviation research program of the National Aeronautics and Space Administration (NASA).

For Function 400, the conference agreement on the Republican budget resolution provides $59.3 billion in budgetary resources (appropriated budget authority plus mandatory contract authority) for 2001, $7.5 billion more than the 2000 enacted level. However, the conference agreement also includes an increase in mandatory contract authority of $2.5 billion for 2000, reflecting the recent reauthorization of the Federal Aviation Administration's (FAA's) Airport Improvement Program. When this amount is added to the 2000 enacted level, the increase for 2001 is only $5.0 billion over the 2000 level. Of that sum, $1.3 billion is for appropriated transportation programs, a 9 percent increase over the 2000 level. Over five years, the conference agreement provides $293.6 billion in budgetary resources for transportation programs, $210.6 in contract authority and $83.0 billion in budget authority.

- ***Comparison with the House Resolution —*** For contract authority, the conference agreement provides the same amount as the House resolution for each of the years 2001 to 2005. For appropriations, the conference agreement provides $100 million more for 2001 and $600 million more over five years than the House resolution.

- ***Comparison with the Democratic Alternative —*** For 2001, the Democratic alternative resolution provided $59.5 billion in budgetary resources, $200 million more than the conference agreement. Over 2001-2005, the Democratic alternative provided $2.9 billion more than the conference agreement. The Democratic alternative increased funding for highways, mass transit, and aviation programs while also preserving the purchasing power of other transportation programs such as the Coast Guard and Amtrak. The Republican resolutions freeze spending for many transportation programs (see below for details).

- ***Highways and Mass Transit —*** The Transportation Equity Act for the 21st Century (TEA-21) constrains the role of the annual budget and appropriations process with respect to transportation funding. For example, TEA-21 ties obligation limitations for federal-aid highways for each year to the excise tax revenues that accrue to the Highway Trust Fund during the prior year, and it adjusts the guaranteed minimum level of highway resources annually. Following the rules in TEA-21, the Administration adjusted the 2001 funding level upward by $3.1 billion. The minimum levels are guaranteed by a point of order against appropriations bills that do not provide sufficient funding. One can reasonably assume, therefore, that $3.1 billion of the $3.7 billion increase in mandatory contract authority for 2001 is for highways and mass transit.

- ***AIR-21 Locks in Increases for FAA* —** Because of the recent enactment of H.R. 1000 (or AIR-21), which reauthorizes the FAA, aviation programs will most likely receive the remainder of the increase in transportation funding for 2001. The remaining $600 million increase in contract authority for 2001 is for the FAA's Airport Improvement Program. In addition, the entire $1.3 billion increase for 2001 appropriations will almost certainly go to the FAA. H.R. 1000 constrains the appropriations process so that it will be very difficult for appropriators to provide anything less than the authorized funding levels. The authorization levels in H.R. 1000 for the appropriated portions of the FAA's budget are $1.3 billion (17.2 percent) higher than the 2000 appropriations.

Likely Distribution of Transportation Appropriations
Under the Republican Conference Agreement (billions of dollars)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
Mass transit	1.2	1.3	1.4	1.4	1.4	1.4
FAA	8.2	9.5	10.0	10.6	10.6	10.6
All other[11]	5.1	5.0	5.0	5.0	5.0	5.0
Total	**14.5**	**15.8**	**16.4**	**17.0**	**17.0**	**17.0**

- ***All Other Transportation Programs Are Squeezed* —** Federal highway programs, grants to airports, and most of the federal mass transit program are funded with mandatory contract authority. Other transportation programs, such as Coast Guard, rail, and DOT's general administrative operations, are funded primarily through appropriations. The conference agreement provides $15.8 billion in appropriations for 2001, $1.3 billion (9 percent) more than the 2000 level. However, for reasons described above, all of this increase will almost certainly go to the FAA. As a result, the funding for other transportation programs such as the Coast Guard, rail programs, and the Department of Transportation's administration will be frozen close to their 2000 levels (see table above).

[11] This category includes: the Coast Guard, the Federal Railroad Administration, capital funds for Amtrak, NASA's civilian aviation research, the National Transportation Safety Board, a portion of National Highway Traffic Safety Administration, DOT's Inspector General, and DOT's Office of Pipeline Safety.

The conference agreement continues to squeeze these other transportation programs in the following years. The modest increases in appropriated funding provided for 2002 and 2003 accommodate only the increased appropriations that H.R. 1000 all but guarantees for the FAA, as well as a small increase for mass transit. By 2003 (the last year covered by H.R. 1000), programs like Coast Guard and support for Amtrak face a cut in purchasing power of 5.9 percent. For 2004 and 2005, the conference agreement freezes all appropriated funding for transportation programs at $17.0 billion. By 2005, that freeze translates to a 10.2 percent cut in purchasing power for the Coast Guard and the other appropriated transportation programs.

Function 450: Community and Regional Development

Federal support for community and regional development helps economically distressed urban and rural communities. Major agencies and programs included in this function are the Empowerment Zones, the Community Development Block Grant, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, the Federal Emergency Management Agency, and the Small Business Administration's disaster loan program.

The conference agreement on the Republican budget resolution provides modest increases in some other budget functions in part by gutting community and regional development programs. For 2001, the conference agreement provides only $9.2 billion for community and regional development appropriations. This level of funding is a $2.5 billion (21.1 percent) cut in purchasing power and is $2.2 billion (19.2 percent) below the 2000 freeze level. The conference agreement continues to cut these programs in years 2002 through 2005, providing $8.7 billion in 2002 and $8.6 billion in each of years 2003, 2004, and 2005. By 2005, the level in the conference agreement represents an unrealistic $3.9 billion (31.5 percent) cut in purchasing power and is $2.8 billion (24.6 percent) below the 2000 freeze level.

The conference agreement does not outline specific cuts for community and regional development programs. However, the cuts in the conference agreement are deep enough to eliminate all discretionary appropriations for the Federal Emergency Management Agency (FEMA) and its disaster relief programs. This would mean that the conference agreement implausibly assumes that over the next five years the nation will not experience a single natural disaster that requires federal assistance. Alternatively, the conference agreement could assume a nearly one-third across-the-board cut in purchasing power for all programs in this function by 2005.

Ironically, the Republican leadership have spoken publicly this year about the need to provide additional resources for development in economically distressed communities. For instance, Speaker Hastert has discussed with President Clinton efforts to develop a bipartisan New Markets Initiative. However, cuts in the Community and Regional Development function would gut many of the federal programs that currently benefit those communities.

- ***Comparison with the House Resolution*** — For 2001, the conference agreement provides $100 million more in appropriated funds than the House resolution. Over five years, the conference agreement provides $600 million more than the House resolution.

- ***Comparison with the Democratic Alternative Resolution*** — The Democratic alternative resolution maintained purchasing power for community and regional development programs for all of years 2001 through 2005. For 2001, the Democratic alternative provided $2.5 billion more than the conference agreement. Over five years, the Democratic alternative provided $16.8 billion more than the conference agreement.

Function 500: Education, Training, Employment, and Social Services

Function 500 includes funding for the entire Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor. It also contains funding for the Library of Congress and independent research and art agencies such as the Corporation for Public Broadcasting, the Smithsonian Institution, the National Gallery of Art, the JFK Center for the Performing Arts, the National Endowment for the Arts, and the National Endowment for the Humanities.

For 2001, the conference agreement on the Republican budget resolution provides $56.8 billion for appropriated programs in Function 500. This level of budget authority represents an increase of $1.4 billion (2.6 percent) above the level necessary to maintain purchasing power; however, outlays represent a $0.6 billion (1.2 percent) cut in purchasing power. Over five years (2001-2005), outlays are only $1.5 billion above the level necessary to maintain constant purchasing power at the 2000 funding level.

- ***Comparison with House and Senate Resolutions* —** For this function, the conference agreement is equal to the House and Senate resolutions in budget authority for 2001 but $600 million below the House resolution in outlays. Over five years (2001-2005), it provides $1.5 billion more in budget authority than the House resolution and $1.6 billion less than the Senate resolution.

- ***Democrats Support High-Priority Programs* —** The Function 500 levels in the conference agreement are $4.8 billion below those in the Democratic alternative resolution for 2001, and $19.1 billion less over five years (2001-2005). For 2001, the higher funding in the Democratic alternative supported the following: (1) the third installment of the President's initiative to improve student achievement by hiring 100,000 teachers over seven years to reduce the average size of classes; (2) assistance to renovate crumbling schools through loans, grants, and tax credits; (3) doubling the size of the after-school program, enough to allow each low-performing school to provide extended learning services to all their students; (4) increasing Head Start by $1 billion; and (5) increasing the maximum Pell Grant award to $3,500.

- ***Conference Agreement Eliminates Increase for Pell Grants* —** The conference agreement rejects two provisions in the Senate resolution that would have added funding for education. The first was a successful Senate amendment that would have decreased the five-year tax cut by $2.7 billion and used that funding instead to increase the maximum Pell Grant award to

$3,700. The second would have provided a total of $2.3 billion in mandatory spending to reward states that show improvements in student achievement.

- ***Minimal Increase for Most Education Programs —*** The conference agreement includes a Sense of the House statement designating at least $2.0 billion more than the 2000 level for special education programs. If this increase were actually enacted, it would leave an increase of only $200 million for all other programs, which would mean a cut in the current level of services for other education programs. Unlike the House and Senate resolutions, which spelled out that this remaining new funding was solely for elementary and secondary education programs, the conference agreement is silent on where it targets this additional $200 million. However, with such a minimal increase, Title I would provide educational services to a smaller percentage of low-income students, school districts would not receive new federal funds to hire and train new teachers, and schools would not receive new funds to expand their after-school and summer programs.

- ***Republicans Freeze Higher Education and Social Services —*** The House resolution asserted that its entire increase for Function 500 was for elementary and secondary education programs, meaning that it froze funding for all social services, employment, and training programs for five years. The Senate provided only a slight increase for these programs. Since the conference agreement purports to assign most of the funding increase for 2001 to special education, it is fair to assume that it also intends to freeze funding for most other programs in this function. Such a freeze means a $1.1 billion cut in purchasing power for higher education programs, social services programs, and training and employment programs for 2001. By 2005, the level in the conference agreement represents an 8.5 percent cut in purchasing power for these programs. This loss of purchasing power translates into real cuts in the numbers of people who can benefit from these programs each year. For instance, by 2005:

    Pell Grants — About 316,000 fewer low-income students would receive Pell Grants to help attend college than in 2000; and
    Head Start — Head Start would have to cut services to more than 40,000 children and their families.

- ***Title XX (Social Services Block Grant) —*** The conference agreement increases mandatory funding for Title XX by $50 million in 2001 and $1.0 billion over five years, relative to the funding levels provided under current law. The House resolution did not provide additional funding for Title XX, while the Senate resolution increased Title XX funding by $100 million in 2001 and $3.4 billion over five years. The Democratic alternative increased funding for

Title XX by significantly more, providing $150 million in 2001 and $750 million over five years above the current law levels.

- ***Republican Education Increase Is a Mirage —*** Much of the increase for special education in the conference agreement is a mirage. Although the 2001 budget authority for Function 500 is $2.2 billion above a freeze at the 2000 level, the conference agreement actually cuts outlays by $400 million below a freeze at last year's level. Over the years, the disparity grows between the amount of budget authority the conference agreement provides and the amount of actual spending (outlays) it allows.[12] Over five years, despite adding $21.8 billion in budget authority to a freeze at the 2000 level, the conference agreement provides only $11.9 billion in additional outlays. Simply put, the Republicans do not provide the cash (outlays) to match their rhetoric (measured in budget authority).

- ***Repeal of Obligation Delays —*** The conference agreement assumes enactment of legislation repealing several timing shifts contained in the 2000 Omnibus Appropriations bill. These changes, contained in the supplemental appropriations bill approved by the House on March 30, 2000, would repeal obligation delays in funds for the Children and Families Services Programs and the Social Services Block Grant. The effect of repealing these provisions will shift a total of $479 million in outlays for those programs back to 2000.

- ***Democrats Offer "Full Funding" for Special Education —*** During the House Budget Committee's mark-up of the Republican plan, the Democrats offered an amendment to provide "full funding" of the federal government's maximum authorized contribution for special education. This amendment would have provided $9.2 billion more for 2001 than the Republican total for special education simply by decreasing the size of their tax cut. Yet when faced with the opportunity to provide this funding, the Republicans refused to do so. Instead of *actually providing* this federal funding for special education, they diluted the amendment to merely repeat their Sense of the House statement that Congress *should provide* this funding.

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[12]Budget authority refers to the amount of funding an agency may commit or obligate. Outlays refer to actual cash disbursements. For example, if Congress provides $2.0 billion in budget authority for special education, local educational agencies (LEAs) can begin making plans to sign contracts with new teachers for special education classes. The LEAs do not pay the teachers their annual salary immediately, but over the course of the academic year. These payments are recorded as outlays. In addition, because most education programs need time to plan for the coming academic year, the funding provided for one fiscal year primarily pays for costs in the following academic year. For these "forward funded" programs, the government releases budget authority on July 1 for the academic year beginning that fall. Most of the associated outlays, therefore, occur in the following fiscal year that begins on October 1.

Function 550: Health

In Function 550, discretionary programs (programs subject to annual appropriations) include most federal programs that provide direct health care services, such as the Ryan White AIDS programs, Maternal and Child Health block grant programs, Substance Abuse and Mental Health Services Administration (SAMHSA), and Title X family planning services. Other health programs in the function fund national biomedical research, protect the health of the general population, protect workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. The major mandatory programs in this function are Medicaid and the State Children's Health Insurance Program (S-CHIP).

Health Programs Subject to Annual Appropriations

Overall, the conference agreement on the Republican budget resolution provides $34.8 billion for discretionary health programs for 2001, $100 million less than the House resolution. This represents a modest increase in purchasing power of 0.9 percent for 2001 for these programs. Over five years (2001-2005), funding for appropriated health programs is $178.9 billion, $1.0 billion less than the House resolution. By 2005, purchasing power is cut slightly (1.2 percent).

Unlike the House resolution, the conference agreement does not contain explicit assumptions regarding the funding of any discretionary health programs. Given the modest increase in overall funding for this function, significant increases for any program, such as the National Institutes of Health (NIH), are likely to mean that there will be insufficient funds to preserve all other health programs at their current level of services.

- ***National Institutes of Health (NIH) —*** The conference agreement does not contain any specific increases for NIH. For 2001, the House resolution assumed NIH funding would increase by $1.0 billion over the 2000 level. On the Senate floor, an amendment to the reported budget resolution was approved to add still more funding for NIH, resulting in an increase of $2.7 billion over the 2000 level for 2001. The conference agreement deletes the additional funds added on the Senate floor and deletes all specific assumptions regarding increased funding for NIH.

  For 1999 and 2000, Congress voted on a bipartisan basis to increase NIH funding by 15 percent per year. Many in Congress remain committed to doubling NIH funding by 2003 relative to the 1998 level. However, it will be difficult to maintain the increases required to double NIH's funding by 2003.

Because the conference agreement deletes the Senate funding increase, a 15 percent increase for NIH for 2001 (the amount necessary to keep NIH on track for doubling by 2003) is likely to mean that Congress must cut funding for other health programs. The overall increase provided in the conference agreement is not sufficient to boost NIH funding and maintain funding for other health programs at their current level of services. For 2000, NIH accounted for 53.3 percent of all discretionary health funding in this function.

- ***Alzheimer's Disease Clinical Training and Research Awards —*** The conference agreement deletes new funding included in the Democratic alternative resolution and the House resolution for research and clinical training for Alzheimer's disease. These funds were included in the House resolution during the House Budget Committee markup by Rep. Ed Markey (D-MA) and provided $2.3 million for 2001 and $11.3 million over five years (2001-2005).

- ***Other Health Programs —*** The conference agreement plan provides a modest increase in overall funding for health programs for 2001. However, if a significant increase for NIH is enacted as it has been for the last two years, the resulting level is insufficient to preserve all other health programs at their current level of services.

- ***Repeal of Obligation Delays —*** The conference agreement assumes enactment of legislation repealing several timing shifts contained in the 2000 Omnibus Appropriations bill. These changes, contained in the supplemental appropriations bill approved by the House on March 30, 2000, would repeal obligation delays in funds for the National Institutes of Health, the Centers for Disease Control and Prevention, the Health Resources and Services Administration, and the Substance Abuse and Mental Health Services Administration. The effect of repealing these provisions will shift a total of $1.2 billion in outlays for those programs back to 2000.

Medicaid and the State Children's Health Insurance Program (S-CHIP)

- ***Reserve Fund for S-CHIP and Medicaid*** — The conference agreement on the Republican budget resolution includes a reserve fund increasing spending slightly for Medicaid and S-CHIP, by $50 million for 2001 and by $250 million over five years (2001-2005), relative to projections of current law. This reserve is about half the increase provided in the Democratic alternative resolution or the House resolution. These reserve funds may be released by the Budget Committee chairman of the House or Senate.

These increases were first proposed during the House Budget Committee markup by Rep. Tammy Baldwin (D-WI) and Rep. Ken Bentsen (D-TX) to expand access to affordable health insurance for vulnerable people. The reserve fund may be used for the following program improvements:

1) ***Accelerated Medicaid and S-CHIP Enrollment —*** The conference agreement: (a) allows additional sites to enroll children immediately (presumptive eligibility) in the programs; (b) allows sharing of school lunch eligibility information; and (c) requires states to simplify and align their Medicaid and S-CHIP enrollment processes; and

2) ***Medicaid Cancer Treatment for Uninsured Women —*** The conference agreement includes a state option for Medicaid coverage and immediate eligibility for uninsured women who are diagnosed with breast or cervical cancer through the Centers for Disease Control's screening program.

- ***Disabled Children's Reserve Fund —*** Unlike the House resolution, the conference agreement includes a reserve fund for health programs designed to allow children with disabilities to obtain access to home health services and enable their parents to seek employment. The reserve allows increased spending of $25 million for 2001 and $150 million for 2001-2005.

- ***Comparison with the Democratic Alternative —*** While the conference agreement increases Medicaid and S-CHIP by $400 million over five years (2001-2005) relative to current law, the Democratic alternative increased these two programs by $8.6 billion over the same period. This figure includes additional health insurance access initiatives, the restoration of benefits for some legal immigrants who lost coverage due to the welfare reform law of 1996, and the expansion of S-CHIP to cover some parents of children who are eligible for the Medicaid or S-CHIP programs. These initiatives grow to $37.5 billion over ten years (2001-2010). In addition, the Democratic alternative included $7.2 billion over five years (2001-2005) and $21.4 billion over ten (2001-2010) for a new long-term care tax credit, although these costs are reflected as revenue losses.

Function 570: Medicare

Function 570 includes only the Medicare program. Discretionary funds (subject to annual appropriations) in Function 570 are used to monitor and administer the Medicare program. Medicare benefits comprise almost all of the mandatory spending in Function 570.

Administrative Funds Frozen

For 2001 administrative costs, the conference agreement on the Republican budget resolution provides $3.1 billion, the same as the House resolution. This level is identical to the 2000 level. Like the House resolution, the conference agreement freezes these funds at this level for five years (2001-2005). For 2001, this represents a 2.4 percent cut in purchasing power; by 2005, a 14.9 percent cut.

Under the Democratic alternative resolution, administrative activities were funded at a level sufficient to maintain the current level of services.

- ***Effect of Cutting Funds to Prevent Fraud, Waste, and Abuse —*** Medicare's administrative funds are part of a pool of funds used by the Health Care and Financing Administration (HCFA) to prevent and detect fraud, waste, and abuse in the Medicare program. Although significant improvements were made in reducing Medicare's improper payment rate between 1996 and 1998 (a 45 percent reduction), the amount of errors is still too high (about $13 billion annually). Although not statistically significant, the level of improper payment rates rose slightly in 1999 over the 1998 rate. A cut in funds will not permit stepped up anti-fraud, waste, and abuse activities. It is ironic that Republicans have stepped up calls for elimination of waste, fraud, and abuse at the same time they reduce the pool of funds needed to do so.

Two Reserve Funds for Medicare

Unlike the Democratic alternative, which provided an immediate Medicare prescription drug benefit for all seniors, the conference agreement increases Medicare spending by $40 billion over five years (2001-2005) relative to projections of current law by creating two reserve funds for Medicare.

The conference agreement creates a House reserve fund and a Senate reserve fund for prescription drug benefits and other Medicare legislation. The conference agreement does not require either body to report any legislation at all.

- ***The House Medicare Reserve Fund —*** The House Medicare reserve fund follows the House resolution. It increases Medicare spending by $2.0 billion for 2001 and $40 billion over five years (2001-2005) relative to projections of current law. The House reserve fund provides for an undefined Medicare reform plan and an undefined prescription drug benefit.

- ***The Senate Medicare Reserve Fund —*** The Senate Medicare reserve fund also increases Medicare spending by $40 billion over five years (2001-2005) relative to projections of current law. The reserve is divided into two equal parts and the allocation of the $40 billion must not cause an on-budget deficit in any fiscal year.

For further discussion of the prescription drug benefit and the Medicare reserves, see *Medicare Prescription Drugs*.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Major federal entitlement programs in this function include Supplemental Security Income (SSI), food stamps, Temporary Assistance to Needy Families (TANF), and child care. Section 8 housing and other housing assistance programs account for the largest share of discretionary spending in this function. Other key discretionary programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Low Income Home Energy Assistance Program (LIHEAP), and the Child Care and Development Block Grant.

For 2001, the conference agreement on the Republican budget resolution provides $35.3 billion for appropriated programs in Function 600. This amount is $600 million above a freeze level but $1.9 billion below the amount needed to maintain current purchasing power.[13] Both the House and Senate resolutions assumed renewal of all expiring Section 8 housing contracts. However, the increases provided in Function 600 under both plans were insufficient to both fund all expiring contracts and maintain funding — even at a freeze — for other programs within the function.

Similarly, the conference agreement does not provide enough to fully fund all Section 8 contract renewals and fund other programs in Function 600. The conference agreement calls for cuts of $1.4 billion (5.4 percent) below a hard freeze for 2001 if all expiring Section 8 contracts are renewed, and more severe reductions from current services. Programs like the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), the Low Income Home Energy Assistance Program (LIHEAP), and the Child Care and Development Block Grant (CCDBG) would have to be increased by $1.9 billion (7.4 percent) for 2001 and by a total of $12.9 billion over the five-year period (2001–2005) in order to maintain current purchasing power.

What cuts will mean to vital programs in 2001:

Child Care and Development Block Grant (CCDBG)
22,000 low-income children of working parents lose their child care subsidy because of a $90 million cut

Low-Income Home Energy Assistance Program (LIHEAP)
$80 million cut, leaving 296,000 low-income households without assistance

Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
$300 million cut, eliminating 558,000 low-income women, infants, and children from the program

[13] After adjusting for anomalies in funding for Section 8 Housing.

- ***Discretionary Comparisons with House and Senate Resolutions*** — For 2001, the conference agreement provides $100 million more in appropriated funds for Function 600 than the House resolution but $100 million less than the Senate resolution. Over the five-year period (2001–2005), the conference agreement provides $1.7 billion more than the House but $1.4 billion less than the Senate.

- ***Mandatory Changes*** — The conference agreement assumes $5.3 billion in increased mandatory spending in Function 600 over five years, all of which is for the Earned Income Tax Credit. From 2002 through 2005, $1.3 billion per year is attributed to the refundable portion of Earned Income Tax Credit marriage penalty relief. The Senate resolution contained an $817 million increase for child care, which was not included in the final agreement.

- ***Democrats Did More For Vulnerable People*** — The Democratic alternative resolution provided $15.8 billion in mandatory increases in Function 600 over five years, $10.5 billion more than the conference agreement (see also *Low-Income Programs*). It made significant expansions to food stamps, benefits for certain legal immigrants, the Child and Dependent Care Tax credit, and the Earned Income Tax Credit.

  The Democratic alternative raised the vehicle limit for food stamp eligibility, conformed the income definition with Medicaid, and indexed the shelter deduction. It also restored food stamps, Supplemental Security Income (SSI), and Medicaid to certain legal immigrants who lost eligibility under the 1996 welfare law. The Democratic alternative also expanded the Dependent Care Tax Credit by making the credit refundable, increasing the credit for families earning up to $60,000, and extending a credit to parents who stay at home with an infant. In addition, the Democratic alternative expanded the Earned Income Tax Credit by $9.9 billion over five years.

  In total, the Democratic alternative expanded low-income benefits and refundable tax credits associated with this budget function by $20.6 billion, although the changes to the refundable tax credits were portrayed as revenue changes. (See *Low-Income Programs* for further discussion.) These important and necessary changes for vulnerable groups were ignored by the Republicans.

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people and appropriated funding to administer these programs.

- The conference agreement on the Republican budget resolution provides for the recently enacted repeal of the earnings test for Social Security recipients between ages 65 and 69. This raises Social Security outlays by $4.3 billion in 2001 and by $15.5 billion over five years. The House resolution did not make any provision for repeal of the earnings limit, but the Democratic alternative budget did.

See *Social Security and Medicare Solvency* for further discussion.

Function 700: Veterans

Function 700 consists of veterans ’benefits programs. Mandatory spending in this function pays for veterans ’educational benefits and income security benefits such as compensation, pensions, and life insurance. The vast majority of appropriated funding in this function is for veterans ’hospitals and medical care, but it also includes funding for housing programs, veterans ’cemeteries, and the general operating expenses of the Department of Veterans ’Affairs (VA).

For 2001, the conference agreement on the Republican budget resolution provides $22.1 billion in appropriated funding for veterans ’programs. This level of funding is $1.2 billion (5.7 percent) above the 2000 freeze level and $400 million (1.8 percent) above the level needed to maintain current purchasing power. Republican documents indicate that most or all of this increase is intended for veterans ’health care programs. For 2002 through 2005, the Republican plan increases appropriated funding for veterans by $400 million to $700 million annually, which represents a cut in purchasing power. By 2005, the conference agreement cuts current purchasing power by $400 million (1.6 percent).

Relative to projected mandatory spending under current law, the conference agreement assumes small increases for 2001 and 2002, followed by small decreases for the following three years. These changes essentially net out over five years. This spending pattern is the result of two policy assumptions. First, the conference agreement assumes an increase in Montgomery GI Bill education benefits of roughly $100 million to $200 million per year. Second, the conference agreement assumes the extension of several veterans-related savings provisions that are set to expire after 2002. Extending those provisions reduces mandatory spending roughly $300 million per year for 2003 through 2005.

For information on provisions in the conference agreement related to health care for military retirees, see *Military Retirees*.

- ***Comparison with the House Resolution*** — For 2001, the conference agreement provides $100 million less for veterans appropriations than the House resolution. However, over 2001-2005, the total for veterans appropriations in the conference agreement is $500 million higher than in the House resolution.

- ***Comparison with the Democratic Alternative*** — For 2001, the conference agreement provides $200 million less in appropriations for veterans than the Democratic alternative resolution. Over 2001-2005, the conference agreement provides $500 million less in appropriations than the Democratic alternative.

- ***Republicans Follow Democrats' Lead on GI Bill Increase* —** Neither the House nor the Senate resolutions provided for an increase in Montgomery GI Bill education benefits, which have not kept pace with the rapid increases in higher education costs. In contrast, the Democratic alternative resolution provided for a 25 percent increase in monthly benefits. The conference agreement follows Democrats' lead by increasing mandatory spending for GI Bill benefits. However, the conference agreement provides $700 million less over five years for this proposal than the Democratic alternative did.

Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

For 2001, the conference agreement on the Republican budget resolution provides $26.9 billion for Administration of Justice appropriations. This level of funding represents a $700 million (2.4 percent) cut in purchasing power. The conference agreement establishes increasingly large cuts in purchasing power for years 2002 through 2005. It cuts purchasing power for the function by $800 million (2.9 percent) for 2002; $1.2 billion (4.2 percent) for 2003; $1.5 billion (5.1 percent) for 2004; and $1.9 billion (6.1 percent) for 2005.

- ***Comparison with the House Resolution*** — For 2001, the conference agreement is the same as the House resolution. However, over five years, the conference agreement provides $2.8 billion more in appropriated funds than the House resolution.

- ***Comparison with the Democratic Alternative Resolution*** — The Democratic alternative resolution increased purchasing power for justice programs by $425 million for each year through 2005. For 2001, the Democratic alternative provided $1.1 billion more than the conference agreement. Over five years, the Democratic alternative provided $8.3 billion more than the conference agreement.

- ***Across the Board Reductions*** — The conference agreement is silent on specific program cuts in the Administration of Justice function. However, assuming across-the-board cuts, programs such as the FBI, INS, DEA, the Customs Service, and the Community Oriented Policing Services (COPS) program will be forced to scale back operations by six percent by 2005.

Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, the Internal Revenue Service (IRS), and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

For 2001, the conference agreement on the Republican budget resolution provides $12.8 billion in discretionary funding for general government, $252 million below the amount needed to maintain the current purchasing power of programs within this function. The conference agreement continues to cut these programs in 2002-2005 to accumulate a $7.0 billion cut in purchasing power over the five-year period. By 2005, the level in the conference agreement represents a steep 15.9 percent cut in purchasing power.

- ***Comparison to House Resolution* —** For 2001, the conference agreement provides $400 million more than the House-passed resolution.

- ***Internal Revenue Service (IRS)* —** The IRS represents 63 percent of funding in this function. A 15.9 percent cut could devastate the agency at a time when funding for processing, assistance, and management needs to be maintained at current levels. Congress needs to provide the IRS certainty in its operational budget for the near future so that the agency can make the improvements expected by the American taxpayers, especially given the increasing complexity of the tax code.

- ***Other Programs* —** If Congress chooses to maintain the purchasing power of the IRS, it will need to cut other programs in this function by 5 percent for 2001 and by 43 percent for 2005. These other agencies include the legislative branch, the Government Accounting Office, the General Services Administration, the Executive Office of the President, and the Library of Congress.

Function 920: Allowances

Function 920 displays the budgetary effects of proposals that cannot be easily distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events.

For 2001, the conference agreement cuts non-defense appropriations by $5.5 billion by including unspecified cuts within Function 920. As is explained in greater detail in *Appropriated Programs*, this is part of an effort to mask the size of the cuts to non-defense appropriations by making cuts without listing which programs would be hurt. Over the five-year period (2001-2005), the conference agreement contains $22.2 billion of unspecified cuts in Function 920.[14]

- ***Comparison with the House Resolution*** — For 2001, the House-passed budget resolution provided $5.1 billion in unspecified cuts to non-defense appropriations shown in Function 920, $400 million less than in the conference agreement. Over five years, the House resolution's Function 920 showed $18.5 billion in unspecified cuts, $3.7 billion less than in the conference agreement.[15] (In contrast, the Democratic alternative resolution contained no unspecified cuts in Function 920.)

  Both the House resolution and the conference agreement assume the enactment of the 2000 Supplemental Appropriations bill. The House resolution included $8.5 billion for the bill approved by the House Appropriations Committee on March 9. However, on March 30, 2000, the House passed a $12.6 billion 2000 supplemental appropriations bill, exceeding the House-passed budget resolution by $4.1 billion. The budget resolution conference agreement includes $5.1 billion for the supplemental appropriations bill, $3.4 billion less than the House-reported appropriations bill and $7.1 billion less than the House-passed appropriations bill. The House resolution showed the total cost of the supplemental in Function 920, but the conference agreement distributes the supplemental's costs to the appropriate functions.

- ***Repeal of Delay in Civilian Pay Day*** — Function 920 in the conference agreement includes a provision contained in the 2000 Supplemental Appropriations bill that repeals a delay in pay dates for federal civilian employees who were scheduled to be paid on September 29 or

[14] The conference agreement also includes a cut of $59.2 billion in budget authority in Function 920 that would be needed to comply with the current caps on appropriations set by the Balanced Budget Act of 1997. This analysis does not address those cuts. See *Appropriated Programs* for more discussion.

[15] The House resolution contained $18.5 billion in unspecified cuts to budget authority, while the conference agreement contains $22.2 billion in unspecified cuts to outlays.

September 30, 2000. Under the delay, they were to be paid on October 1, 2000, the first day in fiscal year 2001. The conference agreement restores the pay date to its original schedule, shifting approximately $768 million in spending back to 2000. This provision also applies to military personnel, but that shift in DOD payments is reflected in Function 050 (Defense).

- ***Repeal of Delay in Supplemental Security Income (SSI) payments*** — The House-passed resolution included a timing shift that affected SSI payments dates but not benefit amounts. The House resolution repealed the delay of the October 2000 SSI payments that was enacted as part of the Balanced Budget Act of 1997. It thereby shifted the payment of benefits for that month from 2001 back to 2000, which increased SSI spending for 2000 by $2.4 billion and reduced 2001 spending by an equal amount. The conference agreement dropped this provision.

Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer's share of federal employee retirement benefits; and certain other offsetting receipts, such as those from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as "negative outlays" because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one agency of a payment made by another.

For 2001, the conference agreement on the Republican budget resolution assumes offsetting receipts of $46.6 billion. Over the five-year period 2001-2005, the conference agreement assumes offsetting receipts of $245.3 billion, the same as projected under current law.

- ***Comparison to the House Resolution* —** Both the House resolution and the conference agreement assume the shifting of $179 million that the federal agencies contribute to the retirement trust funds from 2001 back to 2000. This shift, which is a consequence of shifting the date in which federal employees are paid, is included in the 2000 Supplemental Appropriations bill. It was shown in Function 920 in the House-passed resolution, but it has been distributed to the correct function in the conference agreement.

- ***Federal Employees Pay Raise* —** The conference agreement increases federal civilian pay rates by 3.7 percent in January 2001, the same as the raise for military personnel.

- ***Agreement Drops Senate's Arctic Drilling Provisions* —** Unlike the House resolution, the Senate resolution assumed $1.2 billion in additional oil receipts by 2005 from drilling in the Arctic National Wildlife Refuge (ANWR), which is not permitted under current law. The assumed receipts were shown in Function 950. The conference committee dropped the ANWR provision from the final agreement. For more information, see *Function 300: Natural Resources and the Environment*.

New Points of Order in the Conference Agreement on the Republican Budget Resolution

The conference agreement on the Republican resolution contains several new points of order relating to consideration of spending and tax legislation. These new points of order, however, will have an impact on budget decision making *only if* Congress is willing to enforce them. For instance, last year's House appropriations were considered under rules waiving all points of order. In addition, last year's conference agreement on the budget contained a Senate point of order against emergency designations similar to the point of order in this year's conference agreement. Nonetheless, that point of order was not raised in the Senate against any of last year's appropriations bills, even though those bills contained an unprecedented amount of emergency designations.

Following is an outline of the new points of order in the conference agreement. All of the points of order are permanent unless indicated otherwise.

- ***Social Security Surplus Lock-Box Enforcement in the House and Senate*** — A Social Security lock-box point of order applies in the House and Senate against consideration of revisions to the 2001 conference agreement on the Republican budget resolution or 2002 budget resolutions (including conference reports or amendments thereon) that set forth an on-budget deficit for any fiscal year. The point of order does not apply if real economic growth is below one percent for both the most recently reported quarter and the immediately preceding quarter. In addition, the point of order does not apply if there is a declaration of war. In the Senate, the point of order may be waived or suspended only by a three-fifths vote.

- ***Debt Reduction Lock-Box Enforcement in the House*** — A debt reduction lock-box point of order applies in the House against consideration of reported legislation, including amendments and conference reports thereon, that would reduce the 2001 surplus below the level set forth in this conference agreement. The surplus level is to be revised for emergency designations, international arrearage payments, and other allowable adjustments pursuant to section 314 of the Congressional Budget Act.

- ***Directed Scorekeeping Point of Order in the House*** — A directed scorekeeping point of order applies in the House against consideration of reported legislation, including amendments or conference reports thereon, that direct CBO or OMB to score discretionary funding in a general appropriations bill in a specified way. This point of order is effective for the 106th Congress only.

- ***Advance Appropriations Point of Order in the House***— A House advance appropriations point of order applies against consideration of reported general appropriations legislation, including amendments or conference reports thereon, that would cause the total level of discretionary advance appropriations for 2002 or for any subsequent year to exceed $23.5 billion, the amount of the 2001 advance appropriations. This point of order applies for the 106th Congress only.

- ***Advance Appropriations Point of Order in the Senate*** — A Senate advance appropriations point of order applies against consideration of any legislation that appropriates new budget authority in excess of $23.5 billion for 2002 or any subsequent fiscal year and appropriates new budget authority for fiscal years that are two years or more beyond the budget year. This point of order may be waived or suspended only by a three-fifths vote and expires October 1, 2002.

- ***Delayed Obligations Point of Order in the Senate*** — A Senate delayed obligations point of order applies against consideration of any legislation, including amendments and conference reports thereon, that contains an appropriation of new budget authority for any fiscal year that does not become available upon enactment of such legislation <u>or</u> the first day of the fiscal year, whichever is later. This point of order does not apply to defense appropriations or, apparently, to appropriations that customarily have delayed obligations. This point of order may be waived or suspended only by a three-fifths vote and expires October 1, 2002.

- ***Precatory Amendments Point of Order in the Senate*** — A Senate precatory amendment point of order applies to all future floor amendments to budget resolutions that are "predominately" precatory. Examples are amendments that add or modify Sense of Senate or Sense of Congress language.

- ***Emergency Designation Point of Order in the Senate*** — A Senate emergency designation point of order applies against consideration of any non-defense emergency designation in a bill, resolution, amendment, motion, or conference report. This point of order may be waived or suspended only by a three-fifths vote. If the point of order is sustained, the emergency designation, but not the funding, is stricken and may not be offered as an amendment on the floor.

- ***Justification of Emergency Designation Point of Order in the Senate*** — The conference agreement provides that all Senate committee reports and statements of managers accompanying defense and non-defense emergency designations shall include the following: 1) an analysis of whether the emergency meets specified criteria of being necessary, sudden, urgent, unforeseen, and temporary; and 2) a written justification of why the provision should be accorded emergency status if the analysis concludes the criteria are not met. A point of order against consideration of the legislation is implied if the accompanying reports fail to meet these requirements. This point of order applies *in addition to* the Senate emergency designation point of order that applies against all non-defense emergency designations. The Senate emergency justification point of order may be waived or suspended only by a three-fifths vote.

- ***Defense and Non-Defense Firewall Point of Order in the Senate* —** The conference agreement establishes defense and non-defense discretionary spending limits in the Senate for 2001. For defense discretionary spending, the spending limit is $310.8 billion in new budget authority and $297.7 billion in outlays. For non-defense discretionary spending, the spending limit is $289.5 billion in new budget authority and $327.43 billion in outlays.

  A Senate firewall point of order applies against consideration of legislation that exceeds either the defense or non-defense discretionary spending limits. This point of order may be waived or suspended only by a three-fifths vote. The point of order does not apply if there is a declaration of war.